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CONTENTS

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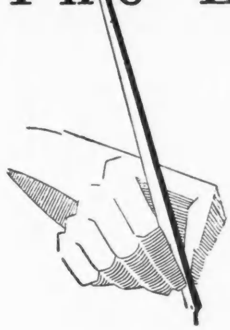
With The Editors



Who Owns American Business?

It would be interesting to know, in qualitive and quantitive terms, just how the ownership of American business is divided. The information would be valuable, too, in answering those who hold that the country's economic affairs are in the hands of a mere "sixty families." For we think that if a breakdown of ownership of all domestic corporations were available, it would show a much broader distribution of interest in the profitable operation of our great corporate enterprises than some self-appointed authorities on the subject would have us believe.

To our knowledge, no such comprehensive survey has been made. But an important contribution in this direction is the study recently published by Monsanto Chemical Company showing how ownership of that concern is distributed. It is important not because it answers the question, "Who owns Monsanto?", but because it suggests an answer to the much larger question, "Who owns *any typical* American company?"

Monsanto has outstanding, in addition to a small preferred issue not included in the study, approximately 1,242,000 shares of common stock. These are held by 11,092 individuals or groups, nearly double the number of Monsanto employes many of whom, however, are also stockholders. Of this total, 8,384 are individuals, 49% of whom are women of which three-quarters are widows. Other owners include 48 investment trusts having 178,000 shareholders, 75 insurance companies with 25,000,000 policyholders, 42 universities and colleges having 80,000 students, 121 hospitals, charitable and educational foundations, 1,607 estates and trusts. More than half of the company's stock is held in lots of 100 shares or less, and ownership is distributed throughout every state in the Union. Contacting a representative cross-section of its stockholders, Monsanto found that they were "average citizens, living average lives, investing their money in average companies . . . because they have faith in American industry."

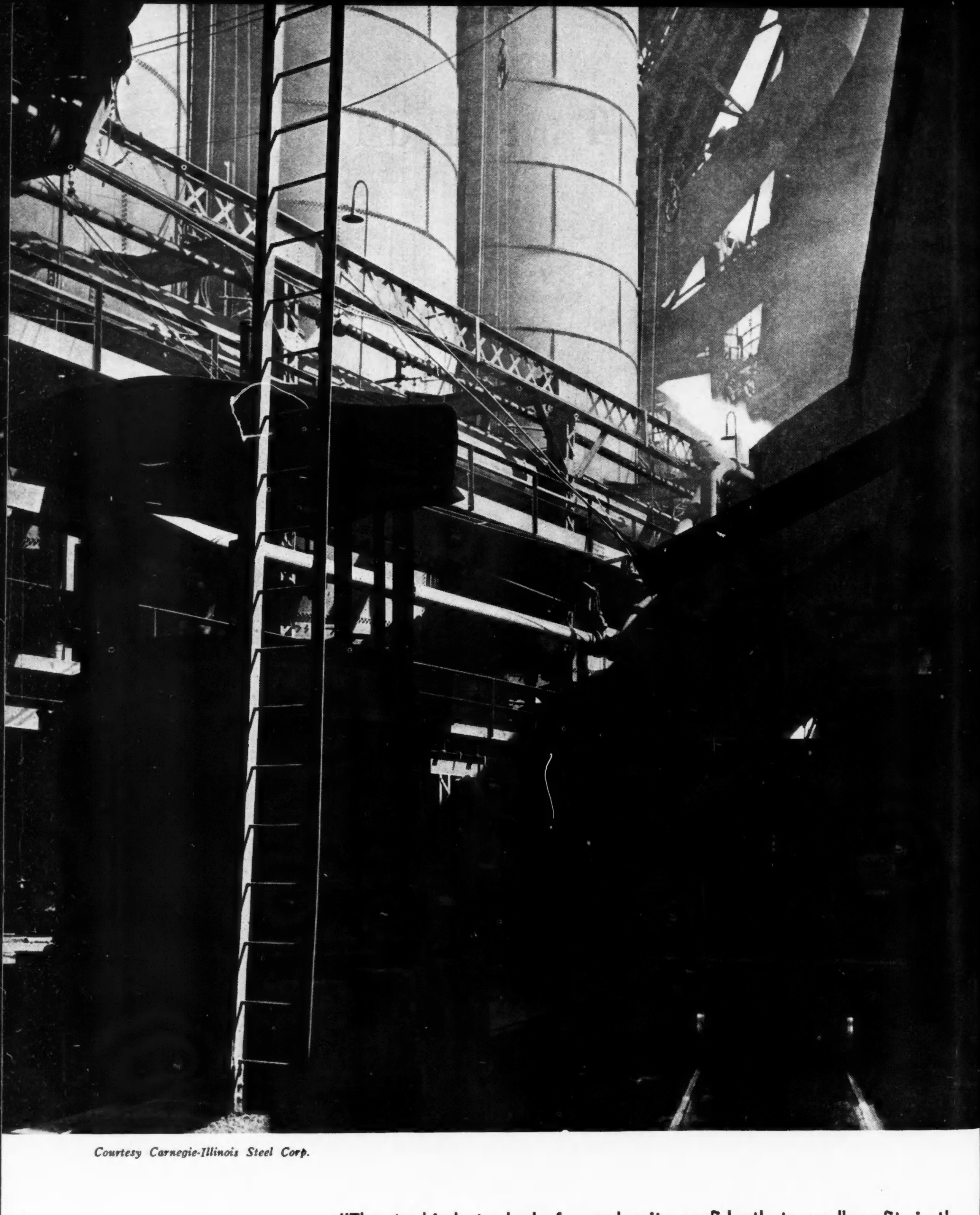
Thus we find that the owners of at least one typical company are not princes of privilege nor money barons nor even economic royalists. They are the rank and file of our citizenry who, mainly by hard work, thrift and careful investing, have acquired an interest in American industrial enterprise. And they are, by the same token, the entrepreneurs who make this enterprise possible. A wider understanding of this fact would, we believe, promote a more general realization that demagogic attacks upon "business" are, in fact, attacks upon the whole people.

★ ★ ★ IN THE NEXT ISSUE ★ ★ ★

Re-appraising the Aviation Stocks
By Norman Creighton

Coming Investment Favor of Merchandising Issues
By H. M. Stanchfield

Deadlock Begins to Break in Capital Financing
By Laurence Stern

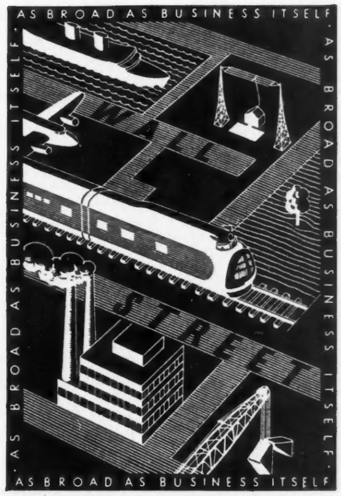


Courtesy Carnegie-Illinois Steel Corp.

"The steel industry looks forward quite confidently to small profits in the first quarter and probable doubling of first quarter net in the second quarter." See Profit Prospects for Steels, page 604.

THE MAGAZINE OF WALL STREET

E. Kenneth Burger, *Managing Editor* : C. G. Wyckoff, *Publisher* : Laurence Stern, *Associate Editor*



The Trend of Events

TOWARD DOMESTIC ACCORD . . . It is probably accurate to say that the "business appeasement" policy of the Roosevelt Administration represents a change of tactics rather than of conviction. What has happened is that the President has belatedly recognized that the November election meant precisely what practical politicians of the type of Garner and Farley instantly recognized it to mean: namely, that it reflected growing public dissatisfaction with New Deal methods and accomplishments. Very specifically, the people want more economic recovery than they have yet had under the New Deal. Apparently recognizing the limitations of his spending policy, Mr. Roosevelt now seeks additional recovery via the route of expanded private investment.

The fact might as well be frankly faced that a majority of business men and investors lack confidence in the key men who make up the New Deal. The President *could* meet this problem with a change of Cabinet members and inner advisers—but is not so meeting it. Thus far the appeasement policy consists of a negotiated peace between T V A and the private utility which had felt the brunt of its competition, assurance that no new reforms will be proposed and that emphasis will be concentrated on promoting private recovery, announcement that no new taxes will be asked, stated willingness to consider revision of taxes which are business deterrents and deferment of any new anti-trust legislation until next year or later.

This is good so far as it goes, but it is to be doubted that it is enough actually to "appease" either business men and investors on the one hand or the anti-New Deal wing of the Democratic party on the other hand. So far as new reforms are concerned, the country has known since November that they are out the window.

In the interest of economic recovery revision of various New Deal laws is desirable and a start must be made toward getting the Federal budget under control. We get the impression, however, that Mr. Roosevelt is determined to stand pat on pretty much the whole New Deal, and to make no major retreat. Yet a partial retreat—not alone a halt in reform—is an obvious necessity if a full measure of business confidence is to be won and enduring recovery assured.

CORPORATE FINANCING . . . New capital financing by corporations thus far in 1939 has been abnormally small, even judged by the depression standards of recent years. It will no doubt increase substantially if economic recovery is sustained, for there is little positive inducement for expansion or modernization of facilities until orders either tax existing capacity or force use of the least efficient portion of equipment. Reflecting a more hopeful view of the business outlook, there are signs at this writing of at least a moderate near term revival in capital financing.

With apologies to Mr. Roosevelt, our economic problem No. 1 is not the South but the problem of restoring a normal volume of productive private investment. So far as security financing is concerned, a "normal" volume is a matter of opinion but it probably lies somewhere between the average low level of recent years and the over-done financing of the 20's. But security financing is only part of the story of the formation and investment of capital. Particularly in manufacturing industry, the bulk of capital investment has always been financed out of undistributed profits.

In the dam blocking increased private investment there is no single key log, and only the naive or the biased will seek to pin chief blame on S E C regulation. There are various obstacles—some economic, some created by one or another policy of government. So far as mechanical S E C restraints are involved, it is only fair to point out that they apply to refunding issues as well as to new capital issues, and volume of corporate financing representing refunding for the three years 1935-1937 exceeded that in the 1925-1929 period by more than 62 per cent.

Any company with a sound credit rating and a reasonably satisfactory profit outlook can raise capital on highly favorable terms. The majority of such companies do not at present need new capital. An enterprise with a poor credit rating and an unsatisfactory profit outlook cannot raise capital. These distinctions are pretty much the same under the New Deal as they were under the Old Deal.

LABOR BOARD CURBED . . . The three decisions adverse to the National Labor Relations Board recently handed down by the Supreme Court remove the last shred of doubt as to the legality of the sit-down strike. This labor weapon, as well as violence practiced by strike pickets, had already been condemned by public opinion in general terms in the November election and in specific terms in several local elections.

Clarification of the Wagner Act through judicial decision and the growing sentiment in Congress for amendment of the Act are influences making for industrial peace by discouraging irresponsible conduct on the part of union leaders. Managements of several companies have been emboldened to enforce increased plant discipline. There is nothing in the Court decisions, however, which impairs labor's legal rights and employers will be well advised to remember that the Wagner Act has not been changed.

When and how much Congress will revise the law remains doubtful. Several amending bills have been drawn but action of any kind has been deferred pending outcome of the Administration's attempt to end the conflict between the A F of L and the C I O. Some observers believe the Court decisions strengthen the cause of amendment. Others are convinced it will have the opposite effect by tending to support defenders of the law, headed by Senator Wagner, in their contention that the trouble has been in administration of the law—with the Labor Relations Board—rather than the law itself.

Since it is possible that further change in the composition of the Supreme Court might result in a different interpretation at some later time, it is highly desirable that Congress should promptly write its own clarifications and qualifications into the law—rewriting it with justice and fair play for both labor and employers.

BUYING RECOVERY . . . It is the accepted theory that New Deal deficit spending is the backbone of the present recovery cycle. Maybe it is, but the point is open to debate since it is not possible on a strictly factual basis to measure the precise relationship between such spending and business activity.

In the ten months ending with January the Treasury's cash expenditures exceeded cash income by $2,115,000,000. That is a large addition to national income—but over the same period total national income paid out amounted to $53,861,000,000, as estimated by the Department of Commerce. Therefore, the excess of Treasury outgo was approximately 3.92 per cent of total national income payments. So examined, is deficit spending the magic formula for recovery?

Defenders of the pump-priming theory point out that the Government opened the spending spigot late in 1933 and that in due time a recovery followed, that the Government launched its second spending drive last spring and again recovery followed. It looks plausible, but we don't know for certain what would have happened had there been no deficit spending. The deficit spending can be measured, but we can't measure the volume of private spending halted by distrust of New Deal policies.

It is a fact that prior to the New Deal every depression was followed by recovery, without deficit spending at Washington. It is a fact that every such successive recovery period carried the national income to a new peak. It is a fact that a notably vigorous recovery began in the spring of 1933 while Government spending was being curtailed in line with the 1932 Democratic platform. It is a fact that each of the New Deal spending programs was launched at a very low level of depression and it is *possible* that in each instance deflation had already substantially run its course. The latter point, of course, is subject to debate.

We have now had some six years of experience with the pump-priming experiment. Through that period of ups and downs business volume and national income have averaged far under the pre-1929 period. An increasing number of our people know a different answer must be found. For that reason a different answer *will* be found. How soon we do not know.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 596. The counsel embodied in this feature should be considered in connection with all investment suggestions elsewhere in this issue. —Monday, March 6, 1939.

As I See It!

BY CHARLES BENEDICT

THOSE DEVASTATING JITTERS

It's the jitters—the Roosevelt jitters—the Hitler jitters—the Mussolini jitters—that keep us from accurately gauging the situation and undertaking new obligations. And yet, we have less reason for fear today than we have had during the past several years—and for a number of reasons.

Business is forging ahead. Orders on hand are already way ahead of last year—important corporations in industries on which progress depends have made great adjustments, built additional capacity for new and diversified products. Why?—unless they know of business in the offing and confidently expect better times! Many of our factories are booked solid with necessitous foreign munition orders, up to two years ahead, and will not be affected by war alarms or peace rumors.

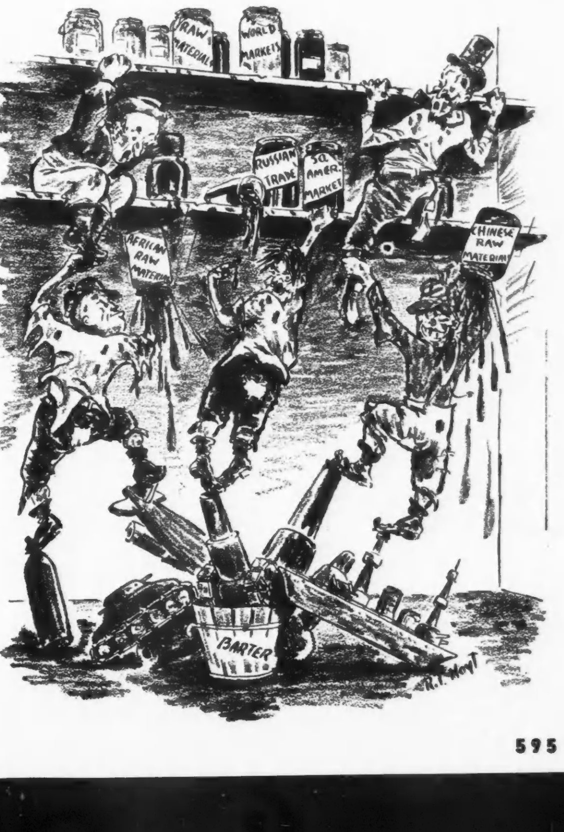
It is now evident that the European situation is clarifying. The truth has come out into the open. No one really wants war. The great display of armed force is proving to be merely a facade, grown thin so you can see through it. Germany's mistakes are now becoming self evident. For with all their intelligence and great executive capacity, the Germans lack commonsense—which weakness has ever been their downfall. But, the possibility of a great war is lessening *mainly* because the Nazis as well as the other important powers in Europe realize more than ever: *that a major European conflict would throw the markets of the world as well as financial supremacy to the United States!*

That is the last thing Germany, England or France would like to see taking place. They have not forgotten the unexpected economic repercussions of the World War. This impelling factor is in itself sufficient to prevent a European war, and force adjustment of the various differences. A general scramble for business has already begun, with Italy and England contesting with Germany for Middle European trade and even the Russian market. Italy has already negotiated a trade agreement with the Soviets—and Neville Chamberlain is at this moment courting them avidly. There is a great commotion and to-do with trade commissions flying hither and thither. Trade treaties are under discussion among the various countries and the opening of competitive markets to all. I would say the air was heavy with peace in Europe—and not with war.

Another factor that is contributing to the changing European situation is the realization that Japan has gotten away with the spoils while the dogs of war were merely showing their fangs and snarling at each other. The European powers are at last awakening to the dangers of a victorious Japan to whom a devastated Europe would be an invitation to conquest. What an awakening for the Nazis—the unwelcome realization that their stupid racial issue has succeeded only in raising the specter of a Yellow peril over Europe, and in making other subject peoples dangerously race conscious.

It is commonsense that ultimately runs the world, though for a time we may suffer, and suffer severely, from greed and malicious blundering.

The change at home is also for the better. There is every indication that the Administration is eager for sustained recovery by 1940. It is not important if this effort is being made with an eye to the presidential elections. Business is to have a chance—and it is to our interest, and to the interest of the whole country, that we cooperate fully. Businessmen (*Please turn to page 644*)



The Wisest Market Policy Now

European fears are waning and domestic hopes are rising. The current recession in business activity will soon give way to spring advance. We believe the stock market's line of least resistance is definitely upward.

BY A. T. MILLER

FEAR of explosion in Europe is waning and a hope bordering on enthusiasm has returned to the London market. At home the retreat from New Dealism, begun with the November election, gathers momentum. Business is nearing a spring advance. Sensitive commodity prices are firming. Best grade bonds are making new all time highs. The easiest money conditions in our history are in nearby prospect as excess reserves of the banking system fast approach the unprecedented figure of $4,000,000,000.

In the stock market all technical indications are bullish. The narrow trading range which prevailed during most of February was accompanied by the smallest volume of trading for any month in more than four years, showing absence of important liquidating urge, and the February indecision has now been followed by a good advance on substantially increased volume.

With the exception of Europe, we can see no cause whatever for worry—and we are not inclined to worry about Europe. Naturally, there is no guarantee that we will get through the spring with the foreign scene remaining as serene as it appears at the moment. All anyone can do is put the circumstantial evidence together and make a guess. Our guess is that German and Italian domestic problems, the quickening tempo of British rearmament and the foreign policy of the United States have ended the long period in which the Fascist dictators had most to gain from threats of war and are ushering in a period in which their hopes must increasingly rest on peaceful negotiation.

On this assumption—supported by rally in the London market almost to the pre-Munich price level—we believe the indicated line of least resistance for the stock market is upward. Many do not share this view and are thinking in terms of nearby resistance levels and substantial March reaction. In our view we had the March reaction in January, double-crossing prevailing speculative opinion which at the year-end was bullish for January and February but skeptical or bearish regarding March and the second quarter. The unexpected January decline and the caution engendered by it give us a technical and psychological setting for a better advance than majority professional opinion now looks for.

The most emphatic double-cross of the year would be a sustained, unspectacular bull market of the 1935 type, devoid of anything but minor technical corrections. The next most surprising double-cross would be an advance running firmly into the summer with little or no trouble. One or the other seems to us a probability.

Although certainly by no means conclusive, the technical evidence of the past fortnight is somewhat suggestive of the type of sustained advance which began in the spring of 1935. That is, the movement has been devoid of speculative excess. Concentrated rallies have thus far been limited to a day or two, followed by minor recession or hesitation. As long as day to day technical health is maintained in this fashion the market should not run into serious trouble of its own making—leaving risk of upset only in the external news and, so far as we can now see, such risk seems confined to Europe.

It is, of course, possible to question the sincerity of the Administration's business appeasement policy but its move toward the Right is encouraging regardless of being motivated by political necessity. Inevitably the general policy of any democratic government is what a majority of the people want. A majority of the people now quite obviously want something more effective and more conservative than the New Deal has been during the past six years. It is the change in public opinion that is of basic bullish significance, rather than Administration and Congressional moves which are reflecting, and necessarily will increasingly reflect, this change.

A substantial economic recovery—more recovery than can be had merely from the stimulant of Federal pump priming—is a vital necessity to the Administration and to the Democratic Party. Exactly the same thing is a vital necessity to our long ailing private capitalist economy. If the major objectives of government and business at last have become virtually identical, surely there should be a chance for a meeting of minds on the

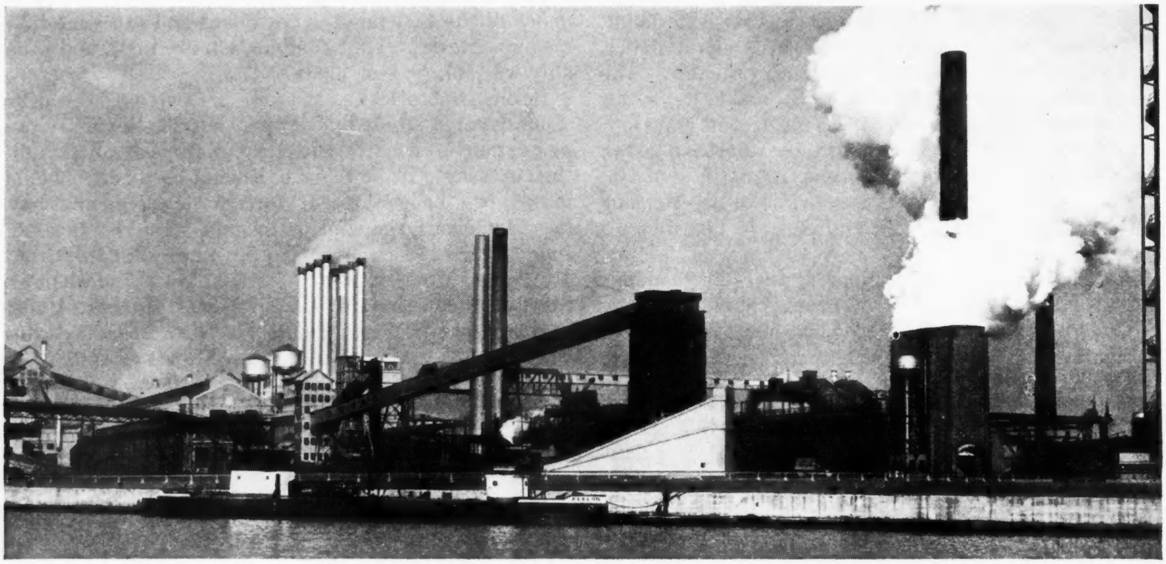
question of methods. Results are what will count.

A sudden or rapid tapering off in Federal deficit spending is neither desirable nor at all probable. The present pump priming program will make its major contribution to business activity in the second and third quarters, probably tapering off in the fourth quarter. What happens after that depends primarily on two things: (1) degree of revival meanwhile in private long term investment; and (2) Federal Reserve Board credit policy.

Looking back, it is quite apparent that the economic tailspin of 1937-1938 was by no means caused solely by the Government's reduced deficit spending, but by the combination of reduced deficit spending, deflationary policy of the Federal Reserve Board and excessive business inventories. That combination need not, and probably will not, be seen again.

In our issue of January 14 we presented a special list of ten favored stocks but deferred specific buying recommendation because of the great European uncertainty then existing. While this risk has not been entirely eliminated, we believe recent foreign developments have been sufficiently hopeful to warrant its acceptance and suggest current purchase. The stocks are Bullard, Crane, Fairbanks Morse, Foster Wheeler, Masonite, Republic Steel, United Aircraft, United States Rubber, United States Steel and Westinghouse Electric & Manufacturing.

—Monday, March 6.



Gendreau

Spring Outlook for Business

BY JOHN D. C. WELDON

If we escape further serious European crisis, it is virtually certain that the lowest level of business activity for the first half of 1939 was seen in February, that renewed advance will begin this month and that a new high in the major recovery cycle will be reached before the end of the second quarter.

Considered in relation to fast business advance during the third and fourth quarters of last year, recession to date does not justify disappointment. On a weekly basis, our index of per capita business activity has declined from the December high of 88 per cent of the 1923-1925 average to approximately 81. But final figures for February will put the average of this index for the first two months of 1939 at only a trifle under the fourth quarter average and only a modest advance for March would mean a first quarter average business volume above that of the good final quarter of 1938. This is to say that, on a quarterly basis, there is a fair chance we will enter the spring season at a new business high, and a much better than even chance that second quarter business will average 5 to 7 per cent higher than in either the first quarter or the fourth quarter of last year.

Before undertaking detailed consideration of the chief factors pointing to a favorable spring outlook for business, a bit of perspective is in order. In 1938 the per capita business index averaged 68.9 for the first quarter, 71.8 for the second quarter; in the first two quarters of 1937 the figures were 93.5 and 98.6 respectively; in the first two quarters of 1936 they were 76.1 and 86.9; and in the first two quarters of 1935 they were 68.9 and 71.8.

Business activity in the first quarter of this year will be approximately 18 to 20 per cent higher than in either the first quarter of last year or the first quarter of 1935, 10 or 11 per cent under the first quarter of 1937 and about 8 or 9 per cent higher than the first quarter of 1936. Estimating minimum advance of 5 per cent from the first to the second quarter, the per capita index would average around 87 for the second quarter. This would be some 25 per cent better than for the second quarter of last year, about 20 per cent above the second quarter of 1935, 11 per cent below the excellent second quarter of 1937 and approximately equal to the second quarter of 1936.

In any event, barring major upset from Europe, the second quarter performance is going to be more closely comparable to that of the second quarter of 1936 than to any similar period during the past four years. Therefore detailed comparison of the present setting with that at this time in 1936 will be both pertinent and informative.

Following rapid advance in the final quarter of 1935, the business index reacted from December high of 88.7 to a low of 72.2 in mid-February. This was a much more severe set-back than has been experienced in the present instance but it was importantly aggravated both by

floods and by a prolonged sit-down strike in General Motors plants. From the February, 1936 low business shot up 20 per cent in ten weeks' time, but an important part of the gain represented production that had been deferred by the floods and the General Motors strike.

Only a major blow to confidence from Europe could extend the present recession to a level as low as that reached at this time in 1936. Conversely, without abnormal interference with first quarter production, the second quarter rise will be much less steep than in the second quarter of 1936, but since it will start from a substantially higher level than in 1936 only a relatively moderate gain will be required to match the second quarter of 1936.

Industrial employment now is slightly higher than at this time in 1936, as well as above the average of the first half of 1936. Industrial payrolls are at a level 12 per cent larger than at this time in 1936 and some 3 per cent larger than any figure attained during the second quarter of 1936. Total national income payments, as estimated monthly by the Department of Commerce, are at a level about 10 per cent higher than at this time in 1936 and approximately this margin is likely to be maintained throughout the first half of the year. The country's money supply, as measured by adjusted demand deposits of reporting member banks, is approximately 14 per cent larger than it averaged in the first quarter of 1936 and is likely to expand further in coming months. The rate of total spending, measured by debits to individual accounts, is at approximately the same level as at this season in 1936 and January-February recession in this indicator will assuredly be followed by renewed advance before long.

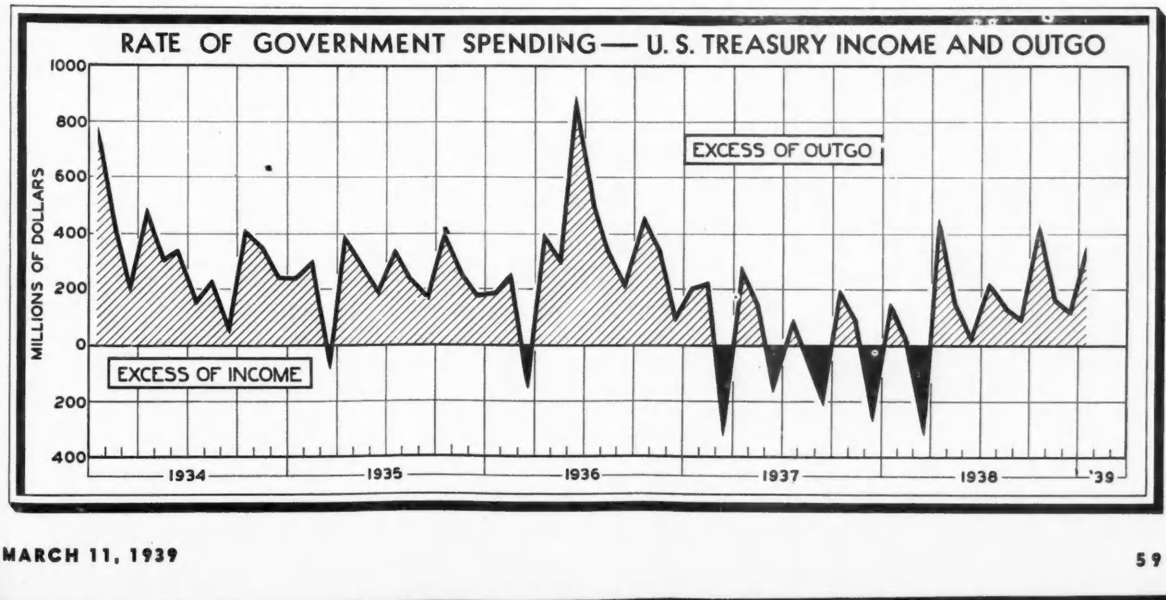
Corporate new capital financing so far this year has been far under the same period of 1936 but at this writing shows signs of vigorous revival. Latest official data on Government deficit spending—excess of cash outgo over cash income—shows monthly increase of $171,000,000, or about 92 per cent, over the 1936 rate. Of the funds appropriated for the present public works program only some 15 per cent have actually been disbursed. The slum clearance program has barely started, so far as concerns cash spending. At least through May the New Deal pump priming stimulus will exceed the 1936 rate. After May comparison will be with the months over which the huge veterans' bonus was distributed in 1936, and it should be noted here that anticipation of the bonus payment helped business considerably late in the second quarter of 1936, especially as regards sales of automobiles.

Department store trade is now about 8 per cent larger in dollar volume than at this time in 1936, variety chain trade 9 per cent larger and rural trade in general merchandising 14 per cent larger, the latter indicator—as well as sales of the leading mail order firms—having recently made a new all time high. Coupled with generally low level of inventories, the favorable trade performance and outlook point to increased purchases by retail and wholesale merchants, even though there is no inducement to speculative forward buying in the apparent commodity price outlook.

The Major Industries

Turning to major industries, steel operations so far this year have averaged a trifle higher than at this time in 1936, despite relatively low tin plate operations and despite the fact that the motor industry has thus far been able to hold down buying through use of steel bought ahead at cut prices in the final quarter of last year. Demand for structural steel is running substantially ahead of any time in 1936 and to date this year steel demand on the part of the railroads suggests a second quarter volume at least on a par with 1936. Increased motor output in the second quarter, even though the gain may be less than of seasonal proportions, will swell steel operations materially above the 55 per cent rate effective at this writing and second quarter steel volume should approximate that of the second quarter of 1936.

The motor industry for some weeks has been producing cars in excess of retail demand for the purposes of stabilizing employment and avoiding risk of having to pay over-time wages on a sudden speed-up of production in the event of better than estimated spring retail demand. For this reason, unless dealer sales experience a greater than seasonal increase over coming weeks, sec-



ond quarter factory output will increase by less than the normal seasonal amount.

First quarter output of cars and trucks will approximate 1,060,000 units, about the same as in the first quarter of 1935 but nearly 5 per cent under the first quarter of 1936. Although subject to revision in line with trend of retail sales, present Detroit expectation is that second quarter output will be around 1,150,000 units, against 1,476,000 units in the second quarter of 1936.

Thus, from now through the second quarter, we must allow for a somewhat smaller contribution to total business activity from the motor industry than was the case at the similar stage of the recovery cycle three years ago. The lag in retail demand for automobiles, as compared with 1936, does not reflect anything wrong with public purchasing power, which we have indicated heretofore to be running ahead of 1936. It no doubt is accounted for by some partial saturation of the replacement market following factory sales of a total of 12,872,000 units in the three years 1935-1937. For a similar reason, there is a lag in demand for certain types of household equipment, notably refrigerators.

Fortunately, the deficiency in the motor industry's performance as compared with 1936 is more than outweighed by the gain in construction. Latest available figures of total building contract awards for the thirty-seven states east of the Rockies show volume about 23 per cent above the corresponding season of 1936. This margin of gain is likely to be somewhat widened over the second quarter, since the improvement in building awards in the second quarter of 1936, as compared with the first quarter, was relatively small, while the trend of private residential building at present is pointing sharply higher.

Moreover, the statistics of building awards do not by any means tell the real story of construction's influence on the coming business expansion. For instance the bulk of the awards in the present P W A program were concentrated in the closing months of last year but because of the considerable lag between letting of contracts and beginning of actual construction the major business stimulation deriving from this program will be felt in the second and third quarters of this year over a period while new public works awards no doubt will be slumping sharply from 1938 highs.

Bearing upon the outlook for residential building, rents are firming slightly, vacancies are declining, cost of building is unlikely to show significant rise during the next three or four months and mortgages insured by F H A are running at a rate much more than double that of either the first or second quarters of 1936.

Direct and indirect economic benefits from rising building activity are many and important. Aside from makers of building materials and supplies, leading direct beneficiaries include the steel industry, the railroads and various types of durable or semi-durable household goods such as floor coverings and furniture. Enlarged employment and earnings in the building crafts mean increasing spending power in an area where it has been most sorely needed.

THE BUSINESS BALANCE SHEET

Favorable:

Rising volume of construction.
Federal deficit spending increasing.
High level of bank deposits.
Consumer income but little under 1937.
Low business inventories.
Stability in prices and operating costs.
Partial turn to the Right at Washington.

Unfavorable:

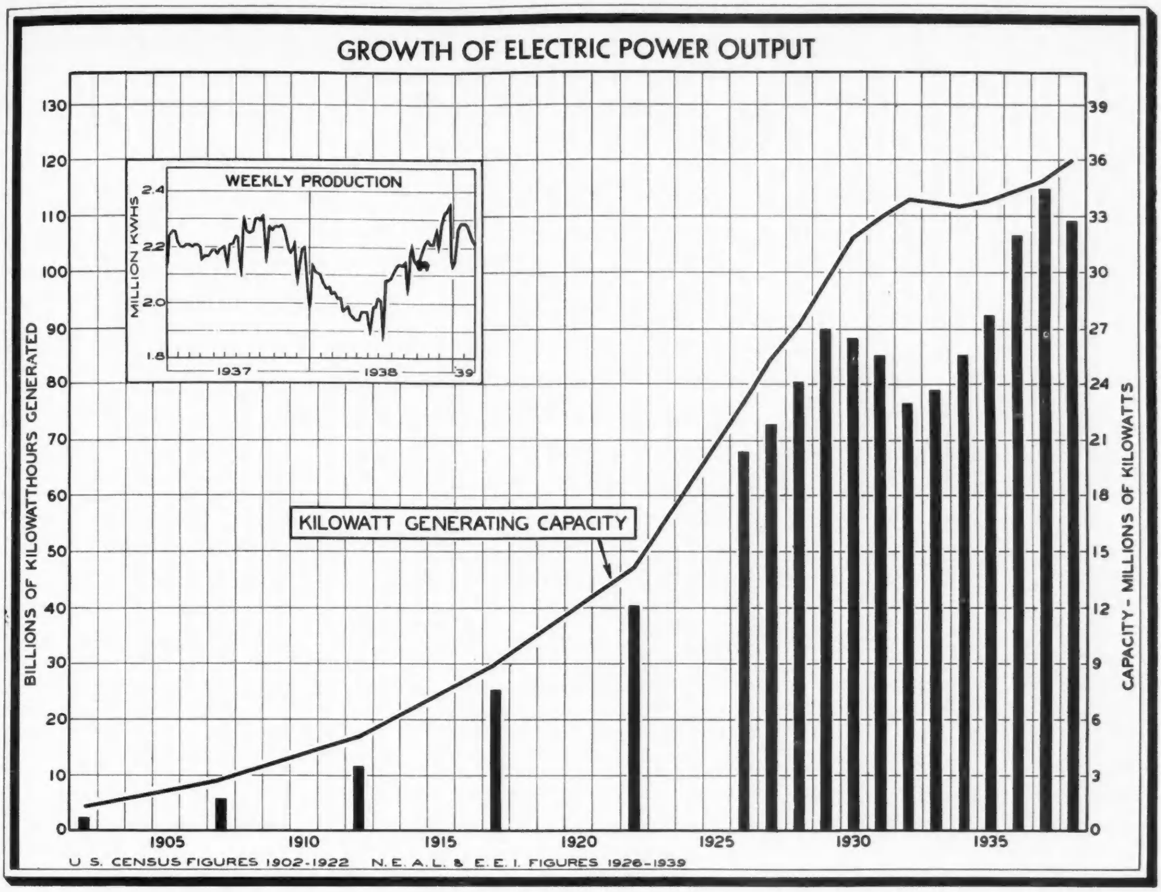
European uncertainty.
Low level of capital goods industries.
Small volume of corporate financing.
Prospective less-than-seasonal motor industry gain.

Even after the major business cycle turns upward there is always a lag in most capital goods industries, and such has been plainly evident in the present cycle. Thus, such fields as electrical equipment, farm equipment, rail equipment and heavy machinery contributed virtually nothing to the business advance in the second half of last year. The machine tool industry was the most conspicuous exception, joining the recovery parade rather promptly and showing further gain in orders so far this year. In the past machine tool orders were one of the most reliable forecasters of coming industrial volume but at least to some extent their significance has been impaired because of the important proportion of machine tool business now resting on foreign and domestic armaments.

Generally speaking, consumption goods industries on balance cannot be expected to do much better than hold their present level over the next several months, having already had about all of the advance that can be supported on the present level of consumer income. This means that in the next phase of recovery the most dynamic support will have to come from Government deficit spending, construction and capital goods industries. As regards the first two of these supports there is no question—and, fortunately, the trend of orders in many types of capital goods has recently begun to show definite improvement, even though gains to date are moderate and volume is still far sub-normal.

Farm equipment, electrical equipment, rail equipment and heavy machinery manufacturers have all begun to feel the breath of recovery. Partly in reflection of indicated record consumption of electricity in the present year and partly in cooperation with the Government's national defense program, the utilities are now projecting capital expenditures moderately larger than were contemplated a few months ago. On business volume for the year no better than that now existing—which seems too conservative an expectation—there is a fair chance, as indicated by operating results to date, that the railroads will have earnings in excess of 1936, which was their best year since 1930. At the present time railroad maintenance and capital expenditures are making a surprisingly good showing.

Spot commodity prices have been firming slightly over the past several weeks and this may be taken as evidence both of better demand and a more hopeful business psychology. With the exception of depressed farm prices, important price rise is neither needed nor desirable—and appears unlikely in any event. Our raw materials index now stands (*Please turn to page* 644)



Public Utility Expansion Demanded

BY FRANCIS C. FULLERTON

From the turn of the century to 1929 the output of electric power, in response to an ever increasing demand, showed consistent gains. For the ensuing three years of depression the trend was interrupted but was resumed at an even faster pace from 1933 to 1937. In 1938 annual output failed to better the preceding year by about 5 per cent, but even in this case, as soon as general business improved, the latter part of the year showed rapid gains with new weekly high points being established as shown in the small detailed chart above.

During these years of expanding markets for electricity power, public utility production facilities not only kept pace but ran a little ahead, anticipating expected growth. Of course when output fell off in depression, capacity was far ahead of demand, but this broad margin has steadily been reduced as output gained, until, at present levels, there is a lack of adequate capacity for the industry as a whole. With further quickening in business, the consequent new demand for power, the new consumption opening up with thousands of new homes being built, the necessity for expanded generating facilities may soon become acute in some areas.

It is true that about a million kilowatts generating capacity was added in 1938, but even this is below the rate of gain in power output common to the years 1932-37. The heavy burden of taxation, the political pressure and general uncertainty were not conducive to ventures in the capital market. But the situation is gradually brightening and the pressure of rising power demand must before long produce a period of public utility expansion that will benefit the whole country and give a decided impulse to recovery. Chairman McNinch of the Federal Power Commission recently estimated that it would be necessary for the utilities to spend some 7½ billion dollars over the next five years in order to meet present and developing needs.

London Competes with New York for American Security Business

Foreign Funds and Foreign Markets Are of Vital Importance to American Investors

BY JACQUES COHEN

The extent to which our security markets have been subject to foreign influences, particularly the fidelity with which the American market has followed London, has occasioned considerable curiosity and some apprehension. Accordingly we have invited Mr. Jacques Cohen, long an observer of foreign markets and head of the brokerage firm of Baar Cohen, to express his views on the subject.—EDITOR.

DURING these last four years there have been those who have seen fit to disregard and belittle the trend of stock market activity away from New York. Now that the evidence seems to be incontrovertible, a special observer has been ordered to London to ascertain whether what many of us in the financial community have known for years is a fact.

How would you feel if you happened to live in New York City, and the Legislature of the State of New York saw fit to pass a law which, among other things, included certain restrictions as to your amusements?

Suppose all people who went to baseball and football games, prize fights, movies, track-meets and other forms of sport, first had to file complicated affidavits, specifying their reasons for visiting particular amusement places? Suppose they also had to deposit with some Government agency twice the amount of admission (already extremely high) as an insurance of good behavior? And suppose that these pleasure seekers were at all times under the threat of legal prosecution if they did not punctiliously observe seating arrangements, fire laws, general deportment, etc.? How would you feel?

And suppose these inhabitants of Manhattan Island could wander over to Jersey City by tube, bridge, or ferry—a city which had none of these peculiar laws of the State of New York and where it was possible and enjoyable to attend the same or better amusements at lower prices? There was no bother, no restrictions, no complications; the attendants were courteous and solicitous.

Which city would get the business? How would you, under these circumstances, regard investments in places like the Polo Grounds, Madison Square Garden, or Radio City Music Hall? Is it not obvious that the places which attracted the most business could and would put on the best show, thereby offering an even more compelling motive for the transfer of business from New York to New Jersey?

The foregoing may seem to be a crude and homely illustration, but I know no better method of presenting how the New York security markets have lost so much business to London.

We must not take into account merely the business lost from our own citizens. There is also the business which formerly came to New York from the principal financial centers of Europe, but which has been going to London and Amsterdam. In fact, at times the market in our American leaders abroad is so substantial the tail wags the dog! Certainly this is true in so far as the direction of prices is concerned, as the trying days of January, 1939, eloquently testify.

Why London Gets the Business

Two years ago, when the American minimum margin was 55 per cent, that factor alone was responsible for a moderate transfer of accounts. Then there was the fear held by foreigners who had accounts in America that, if they sold their securities in New York at a profit, they might be subject to a heavy capital gains tax. This ruling was changed so that those nationals, who have no capital gains tax in their own country, need not pay the tax here. Nevertheless, the harm was done, and the accounts stayed in England.

There were, of course, many other reasons why the London market rather than New York was more attractive to investors and speculators all over the world.

In London, if a client is well known to his bankers or brokers, no margin is required until settlement day (twice a month) and should he happen to buy and sell

the same security between the two settlement periods, he is required to pay only one commission. Should he decide to carry the purchase on margin, it usually amounts to 25 per cent or less, according to the standing and reputation of the client.

Alien non-residents, not being subject to the capital gains tax, can avail themselves freely of the important opportunities offered by the New York stock market for possible capital appreciation. The American citizen, however, as well as foreign residents of this country, who already contribute through multifarious taxes to government fiscal support, are under the further handicap of being obliged to submit to a capital levy every time they realize on investments. The inhibition on the free and continuous movement of capital caused by this capital gains tax is unquestionably detrimental to the economic welfare of a democratic, capitalistic society.

The authorities of the Exchequer of the United Kingdom, after years of experience, recognize that to tax capital appreciation as income (which, of course, it is not) would, by restricting the employment of capital, impair all sources of taxation. They conclude, therefore, that to do so would be an unsound and unjust fiscal policy.

The onerous margin requirements place another handicap on the activities of American citizens and alien residents from which the nationals of other countries are free. Ever since there has been commerce among men, traders (in a commercial sense) have exercised their natural right to extend credit to a customer. They have done so in proportion to their appraisal of him as a business risk, i.e., his ability, his record for meeting engagements, and all the other factors that enter into a determination of a man's value in the minds of his fellows. The requirement that the broker must have a margin of 40 per cent or 55 per cent or whatever it may be on the purchases of all customers alike, regardless of their relative standing, is a denial of his elementary, natural right to condition credit extended to a customer by his own evaluation of the customer. This requirement is equally a denial of the customer's natural right to receive the consideration to which his record of conduct with his fellows entitles him. It is, in effect, a rejection of the traditional conception of business virtues.

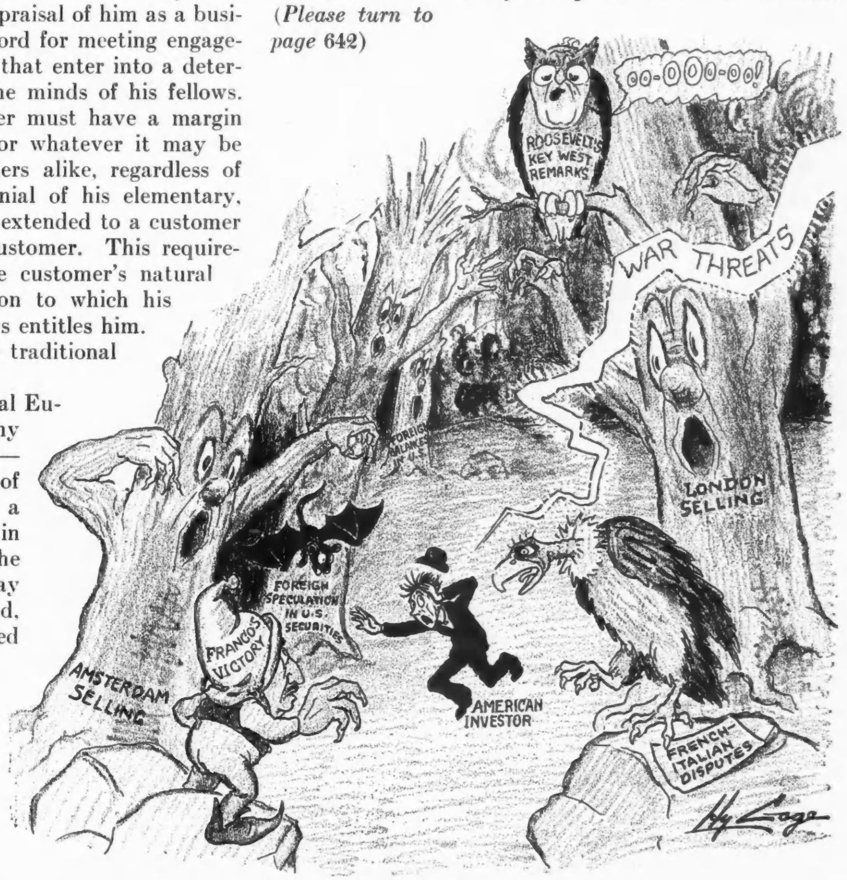
I have been visting the principal European financial centers for many years—sometimes twice a year—and have made intensive studies of these factors. There has been a constantly expanding interest in our markets, largely because the United States is 3,000 miles away from trouble. On the other hand, our regulatory methods are viewed with a mixture of feeling—amused pity because of the restricted financial liberties in a supposedly democratic free country; and satisfaction because the European brokers have been presented the privilege of fattening their pocketbooks.

Now, for the first time in years, I see the golden opportunity to correct this apparent injustice to American institutions. It is dreadfully trite to remark that the pendulum swings to extremes, yet that has been the case in Wall Street more than any other place. Hence, it may be about time for a Wall Street man to venture the opinion that the possibilities for active markets in New York, with the American markets recapturing the primary position, is brighter today than it has been since 1929! This prediction, of course, carries the proviso that the trend of events during these last few weeks have all the significance I read into them.

Foreign Funds Here

Is it not somewhat of a paradox that, because of restrictive legislation, New York has lost a large part of its security market activity to London, whereas because of the recent Continental unrest, European capital centers have lost an important quantity of their bank deposits to New York?

It is no secret that several months before Munich, and every month since then, the capital movement from all principal European financial centers to America, has been of huge proportions. In this comedy of errors, we find London still possessing all the comfortable facilities for active stock markets, although recently shorn of a greater portion of her available funds. New York, on the other hand, is choking with a super-abundance of funds, but has decidedly cramped stock market facilities. (*Please turn to page* 642)



Profit Prospects for Steels

BY ALFRED NORTON

Courtesy of Republic Steel Corp.
Tapping a heat of alloy steel from an electric furnace.

AMERICA's steel industry, having just completed what probably is the most ambitious—and costly—program of plant modernization ever before undertaken by a manufacturing group, has been a little on the anxious seat in the last two months because the flow of orders to mills in the period failed to approximate year-end expectations.

Ingot production snapped back to slightly above 50 per cent of capacity immediately after the Christmas holidays but there it lodged and no amount of whooping and shouting, price threatening and high-pressure sales work could scare out enough additional orders to send it higher.

The situation never at any time grew painful because neither high employment per ton of outturn nor wage rates at a level above those of 1929 have sufficed to lift the industry's "break even point" above the 40-45 per cent at which it has stood for the last ten years. Some profits were made in both January and February, but, naturally, they were quite small.

Real aggravation though came from the fact that such new orders as were turning were largely for "heavy" products while the bulk of the industry's billion-dollar investment in 1934-38 had been for equipment with which "light" products are made.

No manufacturer likes to equip his factories with a lot of fine, new, and expensive equipment and then lack orders with which to put it to work. And that was just the situation in steel.

The orders that sustained ingot production five to eight points above the break even point for two months were 75 per cent for rails, plates, shipbuilding and structural shapes, all of which had to be rolled on the industry's oldest equipment — twenty to twenty-five years old — while the new four-high continuous rolling mills for sheet and tin plate with their expensive pickling, cold rolling and other finishing equipment stood idle or employed only to less than half of capacity.

For a little while, some of the leaders of the industry began to wonder if heavy products were coming back into fashion. The long, fifteen-year up-swing of light steel's percentage has been teetery ever since the group began to lay out big money for new light steel machinery. When it fell precipitately at the turn of the year and the demand for heavy products began to grow from railroad, shipbuilding, and engineering project buying, possibility loomed that steel was in for another of its often-experienced lightning changes.

But all the frightening significance of that possibility has been removed by developments as steel finishes the first quarter. Automobile manufacturers have stepped up assemblies, re-entered the market for sheets.

Food canners have shaken off most of the burden of heavy excess of supplies accumulated in 1937 and can manufacturers are dickering now for placement of good orders for summer delivery. Galvanized sheets are selling so well that prices have been boosted a little by way of eliminating jobbers' concessions. Agriculture is looking for new implements and placing orders for new fencing. And happiest coincidence of all, the demand for heavy products is holding up very well. Heavy plate

mills, rail mills and a few structural shape mills have accumulated backlogs.

The steel industry looks forward quite confidently to small profits in the first quarter and probable doubling of first quarter net in the second quarter. Beyond the second quarter, the view is very hazy.

One thing with regard to this basic industry that stands out is its high efficiency at this time. Never before has it been so modernly equipped, so efficiently organized, so ready on all counts to meet any kind of demand. Some may hold that the country as a whole is not now properly geared for an extensive national defense program, a war, or even a peace-time major production upswing but steel, it is conceded on every hand, is ready for any emergency.

Capacity for outturn of finished products, in a downswing in 1937 and 1938, jumped at the beginning of this year to the all-time high of nearly fifty-eight millions of tons. Costs of production, despite unheard of high employment per ton of outturn and wage rates at an all-time peak, have been kept in balance. Productive capacity also has been brought into balance with demand for the first time in several years.

Balanced Facilities

Back in the so-called "normal" year 1926, aggregate capacity of the industry stood at 35,495,000 tons and this was split, 30.6 per cent for light products and 69.4 per cent for heavy products. Today the capacity split is 42 per cent for light products and 58 per cent for heavy items.

During the period from 1926 to 1939, the capacity was badly out of balance with demand because the call for light steel mounted so rapidly new equipment could not be set fast enough to handle it properly.

That was the development that brought on what many have called a technological revolution in the industry. More than twenty-five four-high continuous rolling mills have been built and put in operation since 1926. The largest and latest of these mills cost an average of over $25,000,000 each and are capable of an annual sheet steel outturn of around 700,000 tons each. The new mills slashed costs of sheet steel production between $7 and $9 a ton and vastly improved the finish and general quality of the product.

Actual demand in the last five years has proved that the sheet-making equipment now is in about the correct proportion for the percentage of total orders the light flat-rolled products represent and the holding down of the break-even point for the large companies has been due largely to the savings this new way of making sheets accomplished.

The remaining job to be done by the industry to finish the work of modernizing its plant is to replace old heavy steel-making equipment.

Undoubtedly the industry intends to do this. Considering that the machinery for rolling plates, structural shapes, rails and other heavy items averages fifteen years old, it is evident that annual write-off for depreciation has in fact wiped out their original cost. Here, then, is a place where the steel industry, if sufficiently pressed, might bolster earnings a little by easing off on the annual charge for depreciation. It does not intend to use the device, though, if it can help it. Patently because it still faces the necessity of a large cash outlay for replacement of heavy mills.

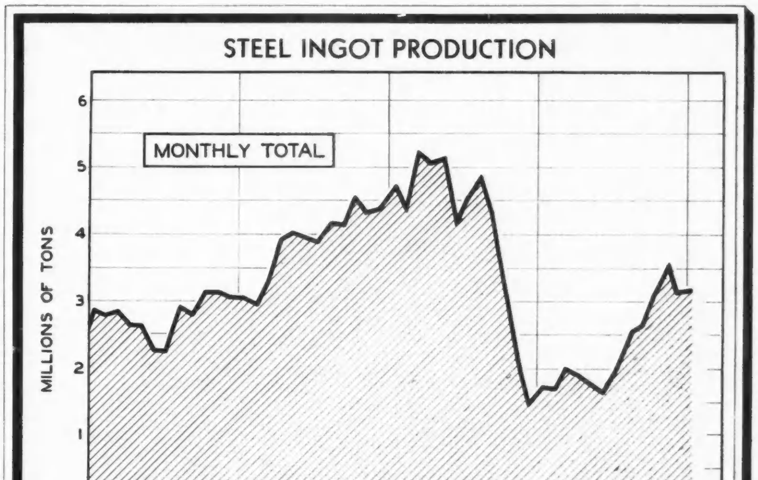
Unless the demand for heavy products turns again into an upswing, it is unlikely that much will be done about these new expenditures for several years. Steel leaders are inclined to believe that the present balance of 42 light to 58 heavy will continue in the direction it has been headed these last ten years. Many predict that light eventually will take 60 per cent and heavy no more than 40 per cent. The disposition is to wait on new heavy equipment until it can be determined how much is needed.

In consequence, cost of production appears likely to remain fairly static in the industry for some time excepting for such variations as are provided by wages. This particular question right now is again in a state of flux. The disturbing element is the minimum wage rates for the industry being established by the contract board of the federal Labor department.

A lot of bitterness has developed from the department's fixation of the four different wage rates for separate sections of the country. Greatest opposition, naturally, has been focused on the top rate of 62½ cents per hour in what generally is called the Chicago-Ohio-Pennsylvania district. In the Walsh-Healey Act authorizing the minimum wage rates where government contracts are being handled, the language directed the Secretary of Labor to "fix rates for the separate localities."

Some of the producers in the 62½-cent zone established by the Secretary of Labor's order say it is illegal to spread the word "locality" over such a broad space as this zone encompasses.

The setting up of "islands" in this zone to spread the top wage rate to Wheeling, W. Va., and East St. Louis, Ill., has been called (*Please turn to page 642*)



Happening in Washington

BY E. K. T.

Hopkins' program to restore business confidence, while not a detailed blueprint, containing nothing not said many times before by others, is nevertheless significant because of its source. He has been in close contact both with business leaders and the President. It is sincere and truly represents attitude of the Administration at the moment. Motives for business appeasement are largely political, looking to 1940 elections, and observers doubt that business confidence can be rapidly restored by mere words or that Roosevelt can refrain from throwing out disquieting remarks.

Hopkins' job as he sees it is to do more than just run Commerce Department. He wants to be sort of ambassador to business, its general government contact channel, taking advice from business to the President instead of all the other way. Is finding job more difficult than anticipated and is already discouraged over complexities of many problems, but is determined to make a go of it and is seeking constructive advice from all sources. Appointment of Sears Roebuck's head, Robert E. Wood, as unofficial adviser should be of great help.

WASHINGTON SEES

Administration desirous of business improvement.

Tax revision, if any, helpful to business.

N L R B drastically checked by Supreme Court.

Labor truce facing big obstacles.

Food distribution plans nearing completion.

Federal oil control sought.

Trade agreements program on skids.

Anti-trust activities widening.

Commerce Department reorganization is in the cards to eliminate deadwood and restore morale sunk to low ebb through years of virtual inactivity. Some personnel changes should be announced soon and a start made toward converting Bureau of Foreign and Domestic Commerce into a Bureau of Industrial Economics, though legislation to complete this may not be asked this year. Several other government agencies are urging this, though one or two want the job themselves. Chances are slightly against transfer of foreign trade activities to State Department.

Tax prospects are confused by Roosevelt's statement that no new ones are planned although his budget message specifically asked some. Probability is expiring excises will be renewed and few other changes made. Congress is only too glad to avoid the tax issue. Morgenthau's proposal to remove tax deterrents to business is welcomed and if this is done prospects are good for simplifying corporation taxes, liberalizing capital gains and losses, and removing other injustices, but many hesitate to open up general tax revision this year for fear undesired proposals would creep in. No decision will be reached for at least a month. Only thing clear is that Administration plans no more reformatory or punitive taxation.

Supreme Court decisions on sit-down strikes are generally applauded by business interests and conservatives in Congress. Decisions recognize employers' right to discharge, condemn sit-down strikes, require unions to fulfill contracts, require N L R B to act on more substantial evidence. Decisions cloud prospects for Wagner act revision: they remove some of act's one-sidedness, but they condemn actions and attitude of present Board members. For business, decisions probably mean fewer severe labor troubles.

Labor truce request of Roosevelt was timed to follow Hopkins' pledge of accent on recovery and would not have been made without some advance assurance of success, but despite much quiet spade-work observers see tremendous obstacles in such things as face-saving, personalities, jurisdictional limits, form of union government, Wagner act amendments, etc.

Foreign policy of Administration continues to be under suspicion in Congress, though less violently than a month ago. Defense program is well received. Financial aid to democracies is viewed with much skepticism, as witness restrictions on Export-Import bank and resignation of Assistant Secretary Taylor from Treasury. But there is strong opposition to "meddling" abroad or bringing pressure against dictators which may involve United States in difficulties; vote against Guam improvements is only a sample. There is a feeling Roosevelt is too much of an "internationalist" to suit majority of constituents.

House Republicans, glorying in their new-found strength, are carefully organizing their opposition to New Dealism, seeking a unified and well-considered plan, avoiding petty heckling. Their object is to become the mouthpiece for voters of moderately conservative views and claim credit for forcing modifications in the Administration's program. Democrats are really worried and are having some difficulty keeping their forces in line. Leaders are talking now of speeding up the session before it gets out of hand, but prospects for adjournment by late spring are exceedingly dim.

Wide World Photo

Harry Hopkins—He wants to be ambassador to business, its general government contact channel, taking advice from business to the President instead of all the other way.

Coal wage negotiations starting soon are complicated by failure of Bituminous Coal Commission to set prices. Operators want to cut wages, so first problem will be to avoid strike by temporary agreement until prices are set. Then if prices are not set soon or not at level to justify present or higher wage scales, Commission will be in a serious jam.

Strategic materials stock purchases by Army and Navy has strong support in Congress and despite budget difficulties legislation probably will pass for extensive four-year program of purchasing war stocks of minerals and other essential materials. This is one of several defense steps urged by strategists but left out of President's message to keep the plan from looking hysterical, but probability is Roosevelt will not oppose it if Congress takes the initiative. Producing interests have amendments which probably will be accepted by Army and Navy to give preference to domestic materials.

Food distribution plans are being rushed by Department of Agriculture with cooperation of other agencies and may be announced soon. Is outgrowth of present "buy-and-give" program, abandoned "two-price plan," and old relief grocery orders, but actually is none of these, though combining certain features of all. Basic idea is to reduce distribution costs and increase purchasing power to remove anomaly of "want amid plenty"; to subsidize consumption instead of curtailing production. If it works experimentally it will be extended to other products, including cotton goods. Emphasis will be put on use of existing distribution channels. Reliefers will be given orders for part payment for foods they would not normally purchase and which are in surplus.

Building costs are being closely watched by Justice Department and more funds are sought by anti-trust division for this purpose. Plans are to investigate every instance of simultaneous advances in materials prices, charges of tie-ups between producers, dealers and contractors, and union boycotts of certain materials and equipment (though labor will not be involved unless there is a conspiracy with suppliers). Commodities under scrutiny include lumber, roofing, millwork, cement, masonry, plumbing and electrical equipment. Alleged conspiracies between lenders and builders to control new construction rate and maintain real estate prices will also be studied. Hope is to use anti-trust laws as far as possible in keeping down home building costs.

Tire damage suit based on identical bidding is novel use of anti-trust laws wherein government in capacity of purchaser uses civil rather than criminal action and asks treble damages for high prices on government contracts and claims identical bids are proof of price conspiracy. If this suit is won, similar action will be taken on many other products where identical bidding is common, importantly steel, cement, machinery, office supplies, building materials and equipment.

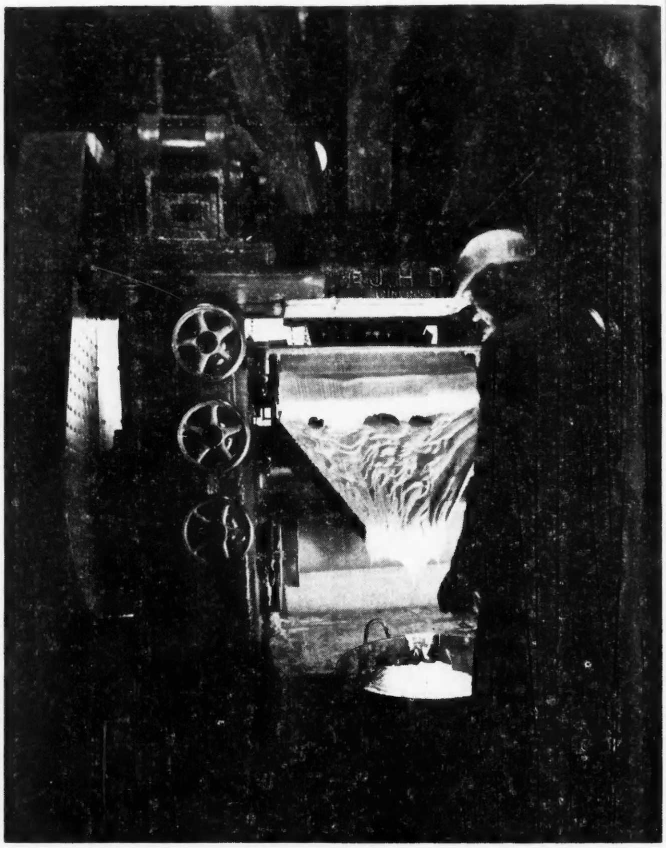
Consent decree procedure in settling anti-trust suits will be widened by Thurman Arnold to speed lawsuits and increase their economic results. To aid this plan he is toying with idea of calling in other government agencies to give him expert economic advice, assist indicted industries in drafting decrees, and serve as "friend of the court" in protecting public interest on non-legal points.

Ocean oil fields will form the subject of a states-rights issue bigger than the flood control fight. Navy has asked for legislation asserting Federal title to rich oil fields off California coast always heretofore assumed to be state property. Suggestion has considerable backing in Congress and some favor a bill to claim Federal title to all submerged coastal lands including piers, bridges, oysters, etc., now on them. California officials are drumming up states' rights issue. *(Please turn to page* **644***)*

The Paraffine Companies, Inc.

Diversified Interests in Building Materials and Containers Contribute to Enviable Record and Favorable Prospects.

BY WARD GATES



Making paint on the newest type of paint grinder at the No. 1 plant of Pabco, Emeryville, Calif.

THE original enterprise from which The Paraffine Companies, Inc., got its name was founded in the far west fifty-five years ago by some people who assumed (1) that California petroleum had a paraffine base, like Pennsylvania petroleum; and (2) that money could be made out of said paraffine.

Both assumptions were wrong, as California oil has an asphalt base. The company met this problem very simply. It kept the name Paraffine but began to put asphalt to various profitable uses.

Much water has gone over the dam since 1884, and if the name should now be changed to The Asphalt Companies, Inc., that would be almost as wide of the mark as was the original name. Today products of the various subsidiaries and affiliates include paints, floor coverings, building materials, asbestos pipe and boiler coverings, printing electrotypes and matrices, paper and glass containers, termite preventives and what have you.

Of the many interesting things about Paraffine Companies, Inc., the most interesting—and the most pertinent to this article—is the fact that for many years the enterprise has been demonstrating an ability to earn quite handsome profits under favorable business conditions and to avoid losses under unfavorable conditions, to pay good dividends most of the time and some dividends all of the time. That is no small achievement in a business subject to wide cyclical variations in volume.

To get to the meat in the cocoanut, Paraffine is a "thin market" stock, listed on the New York Stock Exchange, with 476,062 common shares outstanding preceded by 23,804 shares of $4 cumulative preferred stock. Its last bull market high was 97½, made late in 1936 and within respectable distance of all-time high for present shares of 109½ reached in 1928 when the issue was listed only on the San Francisco Stock Exchange. Lowest price in last year's bear market was 29. Range this year to date has been 60½-52 and at this writing the latest quotation is 54½.

In the company's best recent year, the fiscal year ended June 30, 1937, net income was $2,608,000 or less than 9 per cent under record high of 1929, but on a per share basis this profit, after surtax on undistributed earnings, was $5.28, as compared with $6.25 in 1929. In the year ended June 30, 1938—taking in the worst of the recent depression—profit fell to $2.44 a share. This reduction, however, was partly due to a change in accounting, which we shall examine hereafter and which, if applied to the 1937 fiscal year, would have shown net of $4 per share rather than $5.28.

For the quarter ended last September 30 profit was 66 cents per share, against $1.30 for the corresponding quarter of 1937; and profit for the quarter ended December 31 was 71 cents a share, against 49 cents for the last quarter of 1937—making total of $1.37 for the last six months of 1938, as compared with $1.79 for the same

period of 1937. Quarterly sales are not reported but, indicating importance of price-cost factors, it may be noted that earnings per share in the 1938 fiscal year declined approximately 39 per cent on a reduction of some 14 per cent in sales.

In relation to the sharp revival in building and in general business activity which occurred during the second half of last year, recuperation in Paraffine profits over this period was not particularly impressive. Even allowing for more conservative method of accounting, earning power over this period was not only less than for the corresponding periods of 1937 and 1936 but also less than for the second half of 1935. In the western states in which the bulk of the company's sales are concentrated building permits, as reported by the Federal Reserve Bank of San Francisco, in the second half of 1938 were about on a par with the second half of 1936 and were almost double the volume of the second half of 1935.

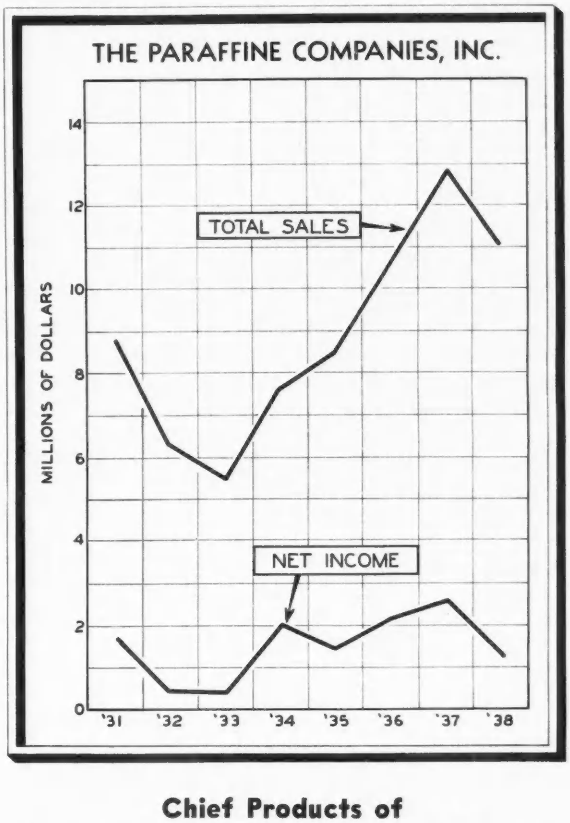
From the information available, two explanations for the lag in demand for building materials in the Paraffine sales area during the second half of last year suggest themselves. First, demand was partly met out of dealer inventories accumulated in excessive volume in 1937. Second, and more significant, actual construction in the second half of last year lagged far behind the upturn in permits, the latter statistics partly reflecting the hurried concentration of public works awards which will exert chief stimulation upon demand for materials this year. So examined, it is probably true that Paraffine's performance in the 1937 fiscal year—profit of about $4 a share on the basis of present accounting methods—is more indicative of potential earning power under reasonably favorable conditions than was the showing most recently reported.

In appraising this company, however, it would be a mistake to over-emphasize its stake in building. At the start of this article we cited a number of Paraffine products, including paper containers. While the fibreboard products at first glance do not seem to loom particularly large in the Paraffine scheme of things, examination of the income statements gives a wholly different picture. To be exact, in the fiscal year ended last June 30 approximately 71 per cent of Paraffine's total income was represented by dividends of $942,315 received from Fibreboard Products, Inc., an affiliated enterprise jointly owned by Paraffine and the Crown Zellerbach Corp. Each of the latter companies owns 50 per cent of the voting stock of Fibreboard Products, Inc., but Paraffine's additional holdings of a non-voting preferred stock and of a non-voting Class A common stock give it 56 per cent ownership of Fibreboard.

Prior to the 1938 fiscal year Paraffine reported as income its proportionate share in the entire net income of Fibreboard Products, Inc., crediting dividends received to the investment account, whereas beginning last year only dividends received were added to income account. For the 1937 fiscal year Paraffine's proportionate share in profits of Fibreboard accounted for about 53 per cent of total income; for about 53 per cent also in 1936; and for about 64 per cent in 1935.

The evidence of the past four year is that profits of Fibreboard Products, Inc., have been both larger and more stable than earnings derived from Paraffine's floor coverings, paints and building materials. Balance sheet of Fibreboard is made public annually as of April 30, but neither interim nor annual earnings statements are available. Most recent balance sheet showed property account of $11,812,000 after depreciation reserve of $11,524,000; working capital of $3,848,000, including cash of $458,495; and total assets of $20,632,000. As compared with the preceding year, cash and working capital were down substantially, and notes and accounts payable were up substantially. From Paraffine's earning report for the 1937 fiscal year it may be deduced that Fibreboard for the same year had a net income of around $3,000,000. Later earnings cannot be similarly figured as Paraffine now shows only Fibreboard dividends received and these may not be entirely in line with earnings.

It need hardly be observed that any change in Fibreboard earnings and dividends would be of major importance to Paraffine, that the outside investor can get a clue to the fortunes of Fibreboard only from its annual balance sheet or the annual income account of Paraffine and that outside judgment of the outlook for Fibreboard



Chief Products of Paraffine Companies, Inc., and Affiliates

Paints, enamels, varnishes	**Composition shingles**
Paper containers	**Asphalt roll roofings**
Glass containers	**Building papers**
Linoleums	**Deadening felts**
Cork carpet	**Roofing asphalt**
Felt base rugs	**Fibre wall board**
Composition tile	**Asbestos pipe & boiler coverings**
Insulating roof slabs	**Engine packings**

Packing Pabco linoleum rugs.

must rest upon an assumption that it is affected by the supply-demand factors common to the paper and paper container industry. For most companies in this field there has been a material recovery in sales but—due mainly to the increased mill capacity erected in southern states over the past two or three years—there has not yet been proportionate recovery in prices and profit margins.

Fibreboard owns four paper and boxboard mills in California and two in Washington; converting plants in California, Oregon, Washington, Hawaii and Philadelphia, Pa., and a corrugated products plant at Baltimore, Md. The company manufactures all varieties of paper containers and shipping cases, labels; as well as printing electrotypes and matrices; also glass bottles, having acquired Glass Containers, Inc., of Los Angeles, in 1935.

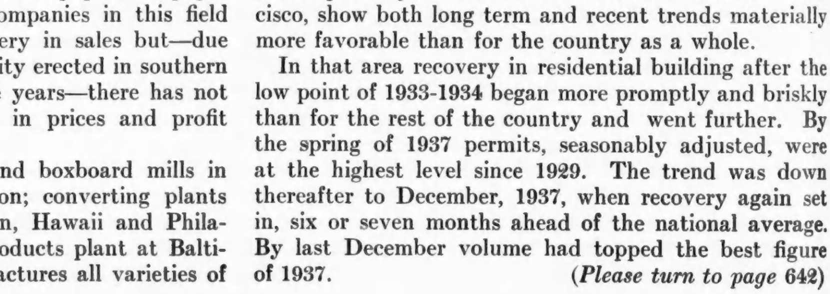
Main plants of Paraffine Companies, Inc., are at Emeryville, Cal. It operates a felt base floor covering plant at Somerville, N. J. A fully owned subsidiary, Plant Rubber & Asbestos Works, has plants at San Francisco and Redwood City, Cal. Company also has subsidiaries, manufacturing building materials, in Australia and Japan, as well as an English subsidiary. It owns minority interests in California Ink Co., Schumacher Wall Board Co., maker of gypsum products; and in Vitrefrax Corp., maker of refractories.

Among the more important materials made by Paraffine itself are linoleum and cork floor coverings, felt base rugs, lining felt; linoleum paste, cement and patching plastic; composition tile, roll roofings, composition shingles, building and sheathing papers, roofing asphalt, pipe wrappings, fibre wall boards; paints, enamels, varnishes and lacquers; pipe and boiler coverings of asbestos and 85 per cent magnesia. Paraffine also deals in, but does not manufacture, rock wool, plaster board, insulating board and lath, fire brick, acoustical materials and asbestos lumber, roofing and siding.

While bulk of sales of Paraffine building materials centers in the far west, it does business throughout the country as well as in various foreign countries. Sales offices are maintained in Chicago and New York, as well as in Kansas City and all important Pacific Coast cities.

There are no available figures on building contract awards in Paraffine's major selling area, as the F. W. Dodge reports cover only the states east of the Rocky Mountains. Residential building permits in the 12th Federal Reserve District, however, as compiled by the Federal Reserve Bank of San Francisco, show both long term and recent trends materially more favorable than for the country as a whole.

In that area recovery in residential building after the low point of 1933-1934 began more promptly and briskly than for the rest of the country and went further. By the spring of 1937 permits, seasonably adjusted, were at the highest level since 1929. The trend was down thereafter to December, 1937, when recovery again set in, six or seven months ahead of the national average. By last December volume had topped the best figure of 1937. *(Please turn to page 642)*



Air view of Paraffine Companies, Inc., No. 1 plant, Emeryville, Calif

The Investment Clinic

Two Bond Opportunities — Special Fortnightly Suggestion for Income

Conducted by J. S. WILLIAMS

Mead Corporation 1st 6's, 1945

Incorporated in 1930 to acquire the business and assets of the original Mead enterprises founded some 80 years earlier, Mead Corporation is engaged in the production of high grade book papers, corrugated stock and wood extracts for tanning. These three product divisions account, respectively, for about 72 per cent, 18 per cent and 10 per cent of net sales.

White papers are made at the company's mills at Chillicothe, Ohio; Kingsport, Tenn.; Philadelphia, Pa., and Leominster, Mass. Nearly half of output in this category goes into magazines (Woman's Home Companion, American Magazine, Collier's, McCall's and Time), the remainder comprising a varied assortment of bond and writing papers, bristol boards for display advertising, calendars, office forms, etc. Raw material requirements are sufficient at or near present locations for 10 or 15 years of operation.

Operations over the past nine years have, of course, been influenced to a considerable degree by cyclical factors, and in two years, 1932 and 1933, the company failed to cover its fixed charges. However, on a cash basis—that is, before depreciation — charges were covered 1.2 and 2.3 times, respectively, in these two years, while the average from 1932 through the first nine months of 1938 was 3.8 times. After allowance for depreciation, fixed charges were covered on an average of slightly less than two times during this period.

The 6's of 1945, outstanding to an amount of $6,994,000 at the end of 1937, are secured by an open-end mortgage on all of the company's fixed property and equipment, carried at a depreciated value of $22,580,000 in the 1937 year-end statement, and by pledge of stockholdings in certain subsidiaries. Sinking fund operations are calculated to retire two-thirds of the issue by maturity; such retirements have already totaled over $2,000,000, the current call price for the bonds being 104. The company's financial position at the end of 1937 was satisfactory, current assets of $8,034.045, including $1,035,764 in cash, amounting to more than three times current liabilities of $2,569,159. Net working capital amounted to almost $790 per $1,000 bond. Other obligations outstanding include $750,000 1st 4½'s of 1945 (under same indenture) issued last year to secure a serial bank loan of like amount, and $56,169 of purchase contracts and subsidiary notes.

Obviously the "A" 6's are not of first grade quality. However, at recent levels around 103, they offer a return which, considering the operating record and financial position of the issuer and in the light of present bond market conditions, seems rather more than commensurate with the character of the risk involved.

STERLING PRODUCTS

Recent Price: 73 **Dividend: $3.80**

This is the first of special fortnightly investment suggestions to those interested primarily in income, safety of principal and sound investment standing. Each subsequent number of the Magazine will contain one such selected issue.

Sterling is a foremost producer of nationally known proprietary and trade-marked pharmaceuticals.

Since the dissolution in 1933 of Drug Incorporated, of which this company was formerly a division, earnings have risen steadily from $4.66 per share in that year to $5.29 in 1937. Last year's decline to $5.10 was less than a 4 per cent decrease.

Dividends of 95 cents quarterly—$3.80 annually—have been paid without interruption since 1933. Extras of 30 cents and 40 cents were paid in 1936 and 1937, respectively.

Capitalization consists solely of 1,712,877 shares of $10 par capital stock. Financial position is strong.

Puget Sound Power & Light 1st 4½'s, 1950

In contrast to the Mead obligations, Puget Sound Power & Light 4½'s of 1950 offer interesting appreciation possibilities as well as somewhat higher yield. Though of somewhat lower quality, this $14,487,000 issue is secured, together with $44,965,000 principal amount of other series outstanding, by a first mortgage on substantially all the company's power and light fa-

(*Please turn to page* 640)

A Leader in a Favored Industry

Niles-Bement-Pond Benefits from Home and Foreign Orders

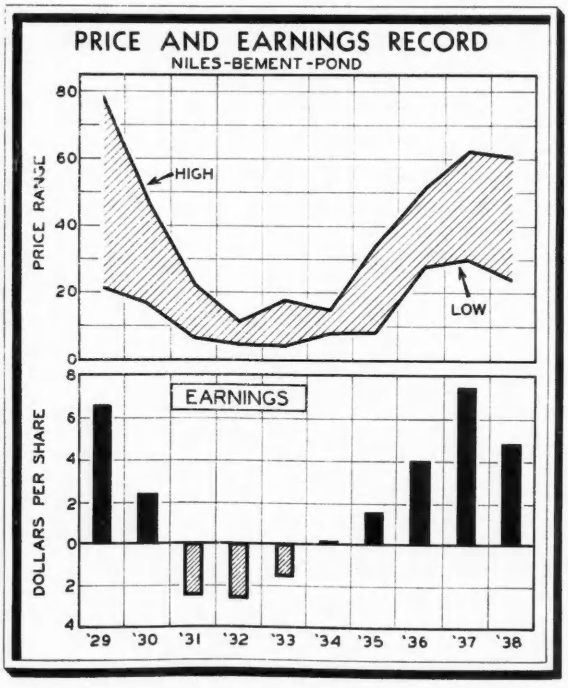
BY CYRUS G. V. WHITE

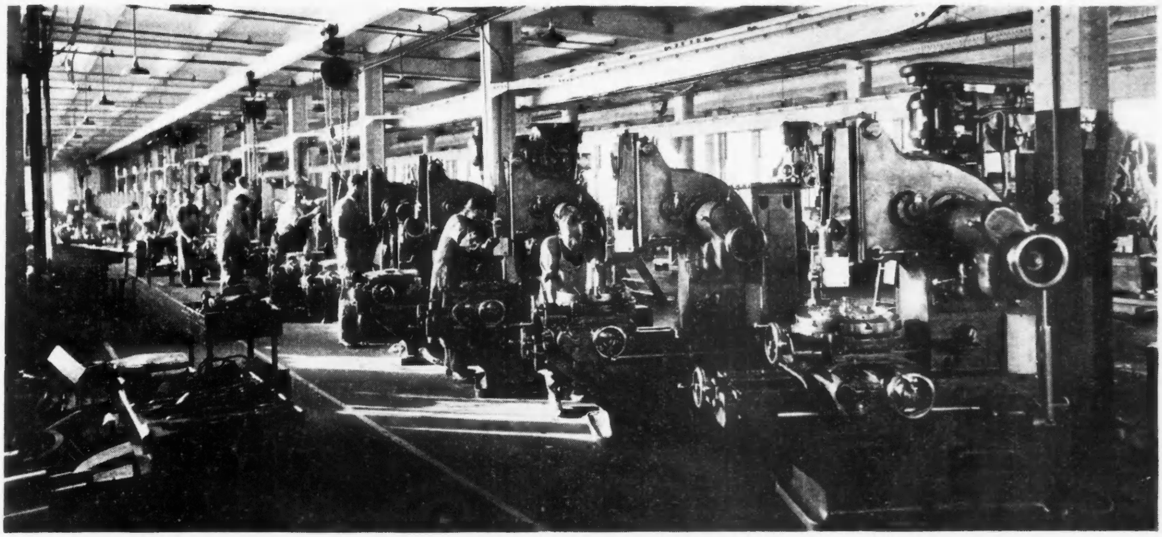
As one of the oldest and best-known of machine-tool makers, Niles-Bement-Pond Co. is an interesting company in the forefront of an industry favored by current circumstances and prospects. The business is normally one of extreme volatility, exaggerating both booms and slumps far beyond their effect on general industrial activity, but managing to show some net gains in each recent cycle as manufacturing processes become more universally mechanized. In the five years leading up to 1937 the index of orders compiled by the National Machine Tool Builders Association rose from less than 10 per cent to over 280 per cent of the 1926 base level. Earnings of Niles-Bement-Pond in the same period went from minus quantities to a peak of $7.46 per share. It would have been logical to expect immediate damage to this earning power when machine tool orders fell back below 70 per cent of the base level early in 1938, and of course profits actually were affected. Yet full 1938 earnings were equal to $4.90 a share, a level exceeded only twice since 1920.

The implications of this fine performance, though, are not to be applied too broadly to the future profit outlook. More than two-thirds of last year's machinery orders for Niles-Bement-Pond came from abroad where in many cases the stress of hurried armament building was keeping producers busy. The proportion has undoubtedly fallen as domestic business picked up; whether sales to Great Britain, Japan and Russia at 1938 levels must be called temporary or not is a matter for argument. The democratic nations, very important as customers, are intensifying their efforts to build equipment, apparently planning at least another year or two of capacity operations in their haste to strengthen their positions. Sooner or later Europe will be able to fill a greater share of her own machine tool requirements and a rather profitable bit of business will be lost in part to producers in this country. South America, on the other hand, may be expected to take more as her ability to pay for them improves. Already there are many signs that this is to be the export market of the future.

Thus there is the *probability* that foreign orders in total will hold close to their unusually active pace over the next year or two, and the *possibility* that declines in European demand will be fully replaced by developing markets in other parts of the world. In that case the sharp betterment in the domestic outlook for orders would mean that a new sales record for 1939 would be well within reasonable hopes.

Niles-Bement-Pond makes a wide list of small tools, such as taps, dies, cutters, reamers and twist drills, as well as big lathes and large power tools. Customers of the company vary in relative importance from time to time, but the automobile industry is always a leader, along with steel, aviation, electrical equipment and miscellaneous manufacturing lines. Experience has shown that light tools enjoy a much steadier demand than the larger, heavier types which are subject to buying waves after a period of prosperity has been under way for a considerable time. Niles has always been a





General view of final assembly stages of vertical shapers at Pratt & Whitney, division of Niles-Bement-Pond, Hartford, Conn.

prominent factor in light tools, but is finding it desirable to work more and more into the heavier fields. Where formerly the plant of the company at Hartford considered a five or six ton machine near its limit as to size, the weight of some machines produced has now been raised to as much as forty tons.

One result is to make the company more dependent upon fluctuations in capital goods outlays of the larger manufacturers, less upon the shifting demands of small customers. During lean years support from orders for lighter tools will be as important as in the past, with heavy equipment contributing to earnings in increasing measure as the pendulum swings back toward prosperity and optimism sufficient to induce the replacement of obsolete machines and the installation of new. The American Machinist made a study which showed that in 1937 about 61 per cent of the metal-working equipment in the country was over ten years old, indicating an enormous potential demand for replacement alone. Furthermore, the years since 1929 have been ones of great progress in the capabilities and economies of machine tools, and there has been ample evidence in the way of labor strife to bring home the desirability of using machines wherever possible. Meanwhile, although the need for machinery in this country has grown tremendously, the years from 1930 to 1936 saw very little ordering even in relation to the years before the 1929 boom.

The index of machine tool orders already referred to, which uses 1926 as the base level equaling 100, reached 186 in the early part of 1929. From there it dropped abruptly, falling below 100 in 1930, touching 7.4 in March, 1933, and failing to reach 100 again until 1935. Early in 1937 a new peak in orders was reached at 282, but this held for only a short time and by February of 1938 the index was back below the 1926 base. In May last year the mark was 66.7, with very little improvement in June. Between June and August, however, the gain amounted to approximately 70 per cent, from 70.2 to 120.9, a period when general business activity gained 15 per cent. This was a good example of the volatility frequently displayed by the industry.

Until 1938 the National Machine Tool Builders Association issued its reports on orders received by members showing the breakdown between domestic and foreign orders. In the first seven months of 1938 export orders averaged somewhat higher than in the corresponding months of a year earlier, while domestic business declined to a small fraction of its previous size. The drop in the total figures was therefore even more serious in terms of domestic orders than would appear on the surface. How much of the summer pickup and of the further improvement since then is to be attributed to foreign orders and discounted in our own situation is difficult to say, but at least in its early stages the rally in the machine tool index has owed much to outside buying.

Potential Tool Demand

Added to all the periods of postponed demand carried over from the depression of the early thirties, the latest dip in domestic business has piled up an even greater potential demand for tools, to be satisfied when business becomes convinced that the time is right. If the present period of rising business activity is to continue for any length of time there will be increasing pressure to speed up plans for installing new equipment. Any squeeze in profit margins caused by high labor costs or other factors is added impetus to the manufacturers to discover new ways of more efficient production or to replace old machines with newer and more economical ones. As individual concerns take these steps the force of competition will act upon others in the same lines to protect their own position with new equipment. Under the proper conditions the new record for machine tool orders set in the short buying wave of late 1936 and early 1937 could easily be duplicated or exceeded and might very well be extended over a much longer length of time.

Since Niles-Bement-Pond participates in all the main classifications which would go (*Please turn to page* 639)

INSIDER'S OPERATIONS:—

How Successful Are They—Do They Support the Market—Are They Factors in the Price Trend?

The Stockholder's Guide

It is commonly assumed that the "insiders" in a company, officials in a position to know week by week how the business is doing, have such a great advantage over the general public that their judgment on the market price of their particular stock must be almost infallible. Even the most sophisticated market followers are impressed when told that the officers or directors are buying such and such a stock. When reports to the S E C show that insiders lately have been selling in any volume the effect on one's optimism is rather chilling. Yet the facts, gathered here for the first time so far as we know, give proof that over a period just short of four years these supposedly informed investors in fifteen representative stocks have been conspicuously unsuccessful in picking the right spots to buy and sell. *As a group, they would have been close to a million dollars better off if they had made no transactions whatsoever in their own issues during the period.*

How "Insiders" Fared in Leading Issues

Approximate results of all insiders' transactions—March, 1935, to December, 1938—arrived at by comparing prices at times of trades with prices at end of 1938.

	Profit	Loss
American Smelting*	$117,400	$......
Bethlehem Steel	53,400	......
Chrysler	12,300	......
Consolidated Edison	......	31,700
Douglas Aircraft*	3,800	......
DuPont	......	50,100
General Electric	34,100	......
International Harvester	87,700	......
International Nickel	......	220,500
Johns Manville*	......	479,400
Sears Roebuck*	......	564,400
Texas Corp.*	248,200	......
United Aircraft*	472,600	......
U. S. Rubber	......	494,300
U. S. Steel	......	140,000
Totals	$1,029,500	$1,980,400
Net Loss	......	$950,900

*—Rights to subscribe to additional stock issued during period.

Reports on monthly transactions are required to be made to the S E C by all officers, directors, and holders of 10 per cent or more of an individual issue. The reports include all gifts, bequests, receipts, transactions of holding companies or partnerships where one of the reporting class has an interest—in fact any increase or decrease in the insider's position. For the purposes of this study only actual purchases or sales are used, so far as the accuracy of reports will allow this to be determined. Where an officer receives stock in his company as a form of compensation, the increase is ignored. Where he subscribes to additional stock using rights which are issued pro rata to all stockholders, however, this is considered a purchase at the subscription price, giving him the opportunity to make a profit of the difference between the market price and the acquisition price. Purchases under "managers' shares" plans or through company purchase agreements are not included in our calculations, since they are considered a form of additional compensation, nor are the transactions of company profit-sharing funds. Gifts and bequests, either to or from the reporting individual, are not included when correctly reported as such.

With these qualifications, transactions between March 1, 1935, when reports to the S E C were inaugurated, to December 31, 1938, have resulted as shown in the accompanying table. Actual dates of purchases and sales have been used to approximate closely prices at which the trades took place, and these prices have been compared with those prevailing at the end of 1938. For example, if an officer of a company sells 1,000 shares of his stock at 20 in 1935, and it has risen to 50 at the end of the period under examination, a loss of $30,000 has been incurred because of the sale. The same man may very likely have owned several thousand shares, most of which he still holds, so that his complete investment account shows a large *book* profit, but nevertheless, he would be $30,000 better off if he had not made the sale in 1935.

The average price of the fifteen stocks used in calculating insider transactions rose almost exactly 100 per cent in the 46 months covered. (Incidentally, these issues were chosen in advance for their representative standing as illustrations, not handpicked after the results became apparent in order to prove a preconceived thesis.) Most of the officers, directors and large holders have therefore profited by the action of the market to the extent that they were contented to hold their stocks throughout the rise. Those who chose to buy or sell or both were given ample opportunity in the way of wide price swings to demonstrate their abilities. Any sales near the top of the bull market showed profits over the prices prevailing at the end of 1938, but purchases at high prices and sales at low prices were more than sufficient to create a net deficit.

Insiders sold on balance throughout the last ten months of 1935 with the exception of April. In 1936, April, June, July and August were the exceptions to the selling trend, with the first and last months named the only ones in which buying was of any considerable size. All during these two years, of course, certain large holdings were being reduced in order to diversify and spread risks. Insiders who sold their own stocks undoubtedly used a good part of the proceeds to purchase other issues, but the purchases for reinvestment do not show on the S E C records, since the new owners are not officials in the companies concerned.

The largest net purchases of any month were made in March, 1937, the peak month of the bull market. Three of the companies under review issued rights to subscribe to their stock exercisable in this month, and subscriptions were responsible for creating a purchase balance. Exercising the rights and holding the stock was a matter of judgment, even though the subscription prices were apparently safely below the market. Officials who acquired stock in this way at prices above current markets are therefore debited with errors, just as the ordinary investor would be.

The only other month in 1937 during which insider buying assumed any volume was the secondary peak of the bull market—August. Following that, selling was steady with the exception of one month until September and November of 1938. Particularly noticeable was the liquidation in the three distinguishable periods of rally. First, in April, after the March lows had been made and recovery ensued, selling from insider sources was heavy. Next, when the summer rally got under way selling persisted for three months. Finally, the rally from the lows of the Munich crisis late in September was followed by the heaviest liquidation of the year. During July, August and October, no individual issue of the fifteen examined showed even a nominal purchase balance.

Many motives for these transactions besides the obvious one of making a cash profit are involved. To all of these the public should give careful consideration before being unduly influenced by insiders' operations. The most prevalent is probably the arrangement of transactions to minimize tax liability, but there are also the need for cash, the size of other holdings, and the urge to diversify or to prepare for estate liabilities to be considered. On the other hand, it may well happen that when a man wishes to make a gift to a relative, instead of selling some stock and giving cash he may give the stock and allow the recipient to sell or not as he chooses. Total sales from insider sources may therefore be larger than is shown, since gifts of stock are not used in making these calculations.

As for influence on market action, it must be apparent that when news of insider selling becomes known a drag is likely to be exerted, and when buying takes place some psychological help is given. In actual amount the trading is not sufficient to influence prices greatly one way or the other. Total transactions for the complete period in the fifteen stocks used here amounted to about 775,000 shares. This is equal to seven-tenths of one per cent of the number of shares of these issues now listed. Extremes in relation of trading activity to number of shares outstanding were Johns Manville with a turnover by insiders of 8.4 per cent and Consolidated Edison and International Nickel with 0.2 per cent. Trading in the fifteen issues by insiders amounted to 0.5 per cent of the total trading in these issues on the New York Stock Exchange between March, 1935 and December, 1938.

The following conclusions seem justifiable:

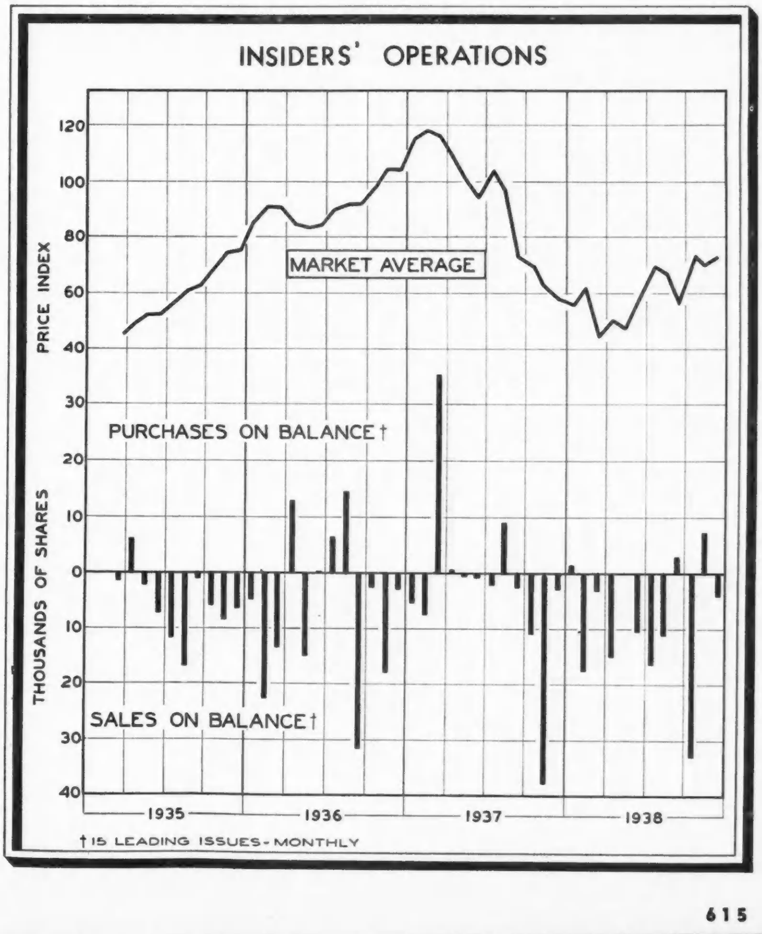
Insiders have been unsuccessful in a profit-loss ratio of two to one since reports have been made to the S E C.

Their trading is insignificant in volume compared to either total company capitalization or total transactions in the issues examined.

They do not support the market in crises with their buying. (See October, 1937, and March, 1938.) This is probably a change since present restrictions have come into force.

They miss the market peaks in selling, but are better at recognizing too high a market than too low.

Other factors—taxes, cash needs, size of holdings, desire for diversification, etc.—are influential in their trading, in addition to the normal urge for profits.



Finance Companies or Motors?

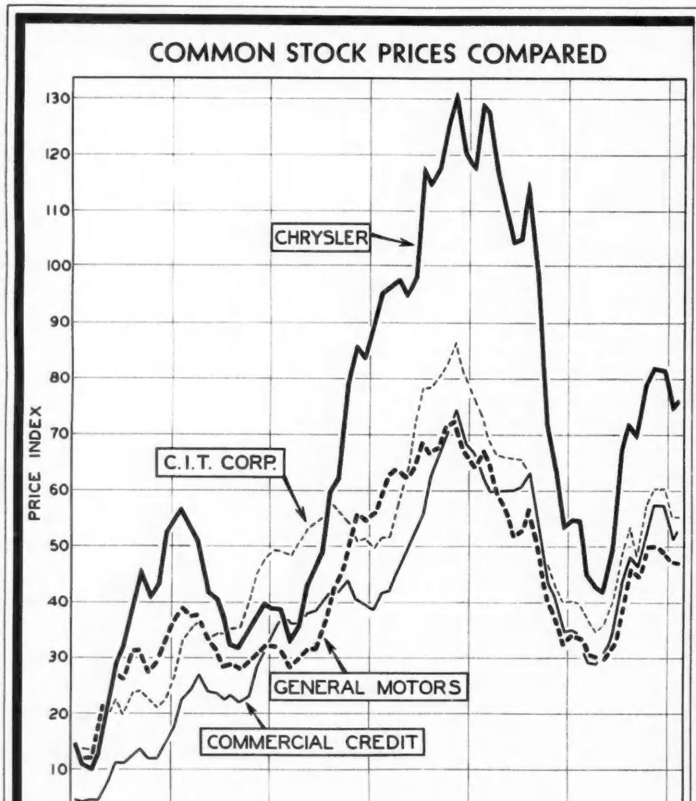
Which to Buy for Yield and Income Stability—Which for Appreciation?

BY H. M. FOSTER

"FINANCE COMPANIES for yield and income stability, motors for appreciation"—that is a remark heard frequently of late. It is interesting if true, but how true is it?

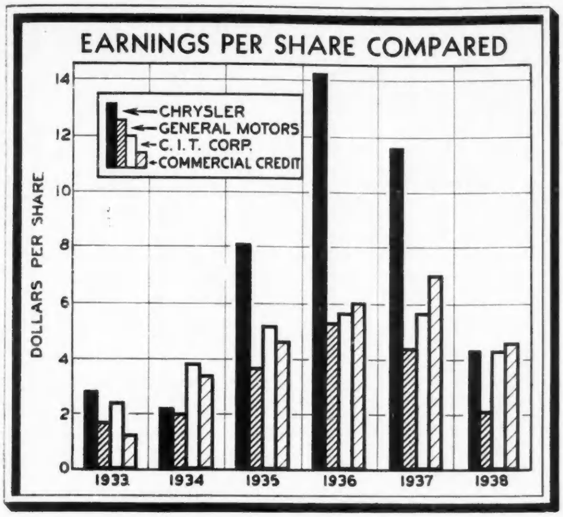
From the compilation of the data graphically represented on these pages, it becomes apparent that no such easy generalization is possible. For while the fortunes of the finance companies and the motors are closely bound up together, there are enough points of difference, within as well as between the two groups, to indicate that only a qualified answer can be given to the question posed in the title. Take the matter of market action, for example.

To begin with, let's assume that the current market phase is closely analogous, though on a lesser scale, to that obtaining in the early fall of 1934—that is, a breathing spell following a sharp initial upsurge from the trough of depression—and that the present period of irregularity will be followed in due course by a more marked and steady upward trend. What then may we logically conclude, on the basis of the record from 1934 to date, with respect to the appreciation prospects of the two major auto manufacturers — Chrysler and General Motors — versus those of the two leading credit companies — Commercial Credit and Commercial Investment Trust?



As for Chrysler, the answer is self-evident. It is immediately apparent from the line chart on this page that this stock has been by far the most volatile of the group on both the up side and the down, leading the way in the 1934-36 rise as well as in the late lamented bear market, and sharing the honors with Commercial Credit thus far in the current cyclical recovery. A glance at our bar chart of annual per share earnings at the top of the opposite page reveals that this action was fully warranted in the light of comparative operating results. And since there have been no changes in the character of business, trade position or financial structure of any of the four companies here included that would have the effect of materially reducing the magnitude of Chrysler's earnings and price fluctuations relative to those of the rest of the group, it is a better than even money bet that in the next general market advance this stock will again show its heels to the others, Commercial Credit included.

The action of our other motor stock, however, presents a markedly different picture. Not only did General Motors fail to approximate Chrysler's percentage gains from 1934 to 1936 and to date in the present bull market; it has also proven considerably less



dynamic than Commercial Credit and no more than a match for Commercial Investment Trust. Based on average monthly prices, GM advanced 158 per cent from September, 1934, to November, 1936, a little better than the 144 per cent rise recorded by CIT during this period but falling far short of CMO's 236 per cent gain. Again, measuring from the average low points in April and May, 1938, to the average highs last November and December, Motor's 68 per cent appreciation was well under the 98 per cent advance of Commercial Credit and also somewhat less than the 74 per cent gain in Commercial Investment Trust. Chrysler's gains in these two periods amounted to 309 per cent and 94 per cent, respectively.

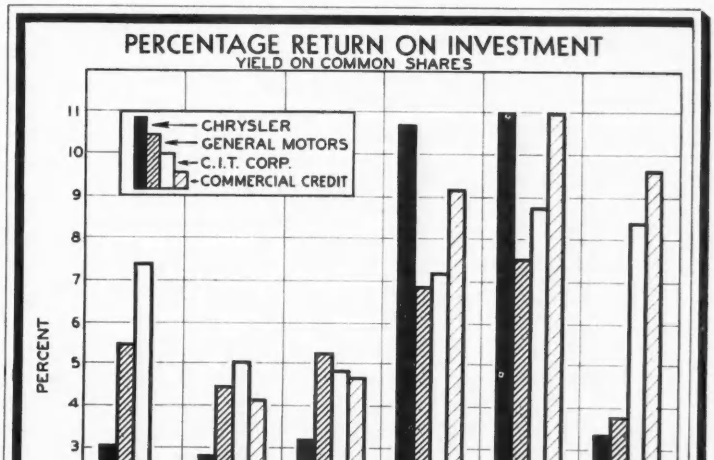
It is right here that the phrase "motors for appreciation" goes out the window, for it is apparent that a generalization will not cover the case. However impressive a performance the record may indicate for Chrysler versus the finance companies, the same record suggests a relatively drab showing by General Motors. It is true, of course, that both Commercial Credit and Commercial Investment Trust effected advantageous refinancing operations a few years back and that a further decline in money rates of sufficient proportions to make such operations again feasible seems altogether unlikely. On the other hand, it is worth noting that refinancing by the credit companies was carried out for the most part in 1936, that earnings gains from 1934 to 1936 could not have been increased much thereby, and that these companies have yet to reap the benefits of lower cost capital in an extended period of rising business volume. Actually, we doubt if this factor will prove of sufficient weight to tip the balance importantly one way or the other and, barring the unforeseen, we are inclined to accept the record at pretty nearly its face value.

Turning from the question of market action to that of yield and income stability, we encounter one or two other eye-openers including an average five-year yield for Chrysler—that is, average annual dividends from 1934 through 1938 as a percentage of the 1934 mean price—that is topped only by that of Commercial Credit. When yields for all four stocks are computed on this basis (which simply assumes that in each case the investor purchased his holdings at a figure midway between the 1934 high and low and proceeded to hold on through thick and thin), wide variation in income is apparent. Yields were as follows:

Chrysler	12.2%
General Motors	8.1%
Commercial Credit	14.0%
Commercial Invest. Trust	9.7%

The above figures do not, of course, furnish any comparison of income stability over the period covered nor do they suggest the advantages to be derived from switching operations as the cycle progresses. For light on these matters we must consider annual yields reckoned on mean prices for each year as shown graphically in the lower chart on this page.

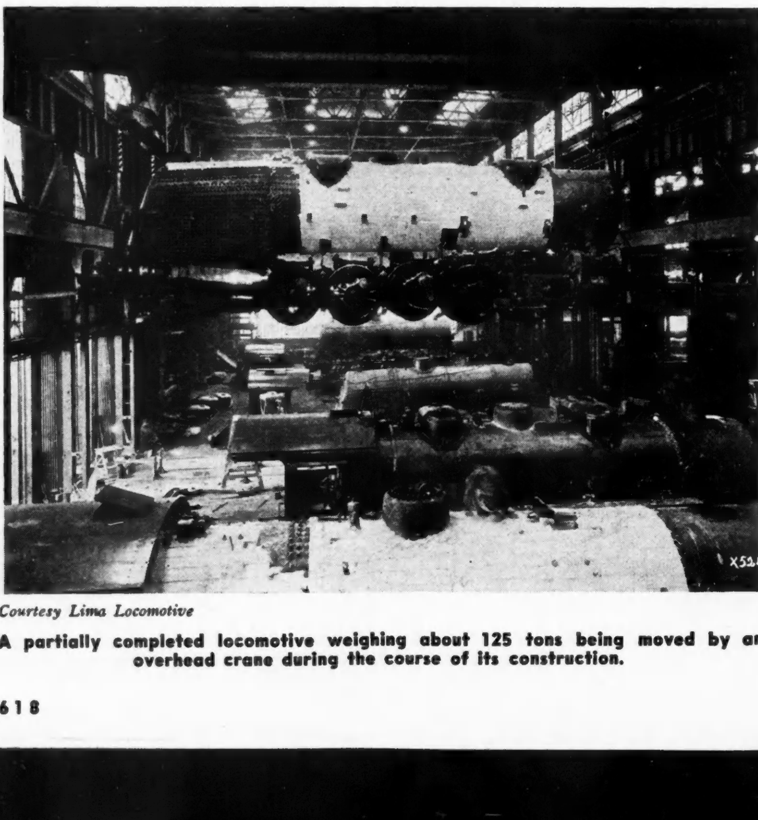
Here we see that for the 1934-38 period as a whole General Motors afforded the most stable if also the lowest yield. In the depression year 1938, however, GM's yield dropped much more sharply than in the case of either Commercial Credit or Commercial Investment Trust. One can scarcely escape the conclusion, which indeed is supported by the record of actual dollar payments, that the former's comparative income stability over the entire period was mainly due to relatively small dividend increases in prosperity years rather than to any noteworthy maintenance of payments in depression. Both the finance companies have exhibited remarkable stability of yield as well as actual dollar payments from the beginning of 1936 to date—three years encompassing the extremes of cyclical fluctuation in general business activity. Chrysler's yield, as might well have been expected, varied widely during (*Please turn to page* 640)



For Profit and Income

B-M T to N. Y. City

After nearly 20 years of negotiations a decisive step has been finally taken which promises to lead ultimately to the complete unification of New York City's transit facilities. Representatives of the city and Brooklyn - Manhattan Transit agreed on a price of $175,000,000 to be paid for the B-M T properties. The manner in which this sum will be distributed to the various interested security holders has still to be proposed and approved. At the end of last June total funded debt of B-M T was $162,655,651, including subsidiary and underlying obligations. In addition there were outstanding 149,217 shares of preferred and 309,592 shares of common stock of Brooklyn & Queens Transit, the subsidiary operating the surface and bus line routes. B-M T stock capitalization comprised 24,946,800 6% preferred and 735,664 common shares. With the agreed purchase price less than $13,000,000 in excess of funded debt, it appears that with the possible exception of about $22,000,000 in underlying obligations, bondholders will be required to accept less than par for their holdings in order to leave sufficient balance to satisfy preferred and common stockholders. Stockholders are in a position to upset the deal if they do not consider the final terms as favorable, making it virtually mandatory for bondholders to make some sacrifice. Holders of B-M T 4½'s, for example, may be offered 85 or 90 in 3% tax-free bonds of New York City. Holders of the surface line obligations will probably be called upon to make the heaviest concessions, in view of the fact that these properties have not been profitable in recent years. In relation to prevailing quotations for both the bonds and stock issues, holders appear to have nothing much to lose—and may possibly gain—by retaining their commitments pending announcement of actual terms.



Courtesy Lima Locomotive

A partially completed locomotive weighing about 125 tons being moved by an overhead crane during the course of its construction.

Oil Profits Under Year Ago

In sharp contrast with the gains being made in other sectors along the business front, profits of the oil industry will be considerably lower this quarter than in the first three months of 1938. Unduly heavy accumulation of gasoline stocks and consequent price weakness are primarily responsible. Motor fuel stocks totaled about 83,000,000 barrels on February 18, a level which trade sources estimate should not have been reached until the end of March if a reasonably satisfactory statistical position were to be maintained. Tank wagon quotations, despite a slightly firmer tendency in midwestern centers last week, continue close to the lowest levels in more than four years. Crude prices in the important midcontinent area are also under a year ago, having been cut on an average of 12% last fall. Improvement in this

division of the industry seems likely to hinge upon the inclusion of Louisiana, Michigan and Illinois in the Interstate Oil Compact when that agreement comes up for renewal later this year. Outlook for the refinery end of the business is largely dependent upon some curtailment of refinery runs this month.

Rail Equipment Purchases Higher

The railroads are again in the market for equipment in important volume. Since the beginning of 1939 orders for rails have exceeded those placed during the entire year 1938; and there are indications that much more is in prospect. Orders for rolling stock and motive power are also expected to be sharply higher. Over and above the direct effects on the equipment and steel companies, resurgence of the railroads as important customers of heavy industry constitutes a major stimulus to over-all business activity.

Interesting Preferreds

Firestone Tire & Rubber \$6 Preferred and Crown Cork & Seal \$2.25 Preferred (ww) are not without merit from an income standpoint. At recent levels around 102 and 40 respectively these issues yield a return of better than 5½%. Dividends are being covered by a comfortable margin.

Adverse to Newsprint?

The recent development of a method for de-inking waste paper and producing a newsprint at least 15% stronger than the ordinary product may toss a bombshell into the newsprint industry. The process' inventor, Dr. W. F. Hochstetter of Pittsburgh, asserts it will cut the price of newsprint by about 40%. The new paper has been successfully tested in high speed runs and commercial production is in prospect before the year is out.

Rising Costs Hamper A. T. & T.

American Telephone & Telegraph fell short of covering its regular \$9 dividend last year by 68 cents a share, \$8.32 for the period comparing with \$9.76 in 1937. Total operating revenues of the Bell System (A. T. & T. and its major telephone subsidiaries) were virtually unchanged but higher operating expenses, notably wages and taxes, resulted in a 15% decline in net income applicable to A. T. & T. stock. In this connection Mr. Gifford points out in his report to stockholders that rising costs "are not only largely arresting the downward trend in telephone rates but may require some increase in rates.

All Ears

Though liquor sales were lower, sales of drugs and sundries by McKesson & Robbins in January were slightly ahead of a year ago. The company's misfortunes apparently have not reduced consumer acceptance of its proprietary lines which may be of some consolation to security owners caught in the collapse and still holding on. * * * The lower court decision holding the Pennsylvania chain store tax unconstitutional will, if sustained, mean refunds to American Stores Co. requiring the upward adjustment of combined 1937-38 earnings from 42 cents to \$1.58 per share. * * * A \$7,000,000 increase in inventories of American Tobacco last year was financed by additional bank loans of like amount since dividends were in excess of the \$4.89 earned per share. * * * The 47% increase in net income of General Foods last year serves to emphasize the marked progress being made by the company's frozen foods division. * * * Over 60% of North American Aviation's present order backlog of about \$25,000,000 has been booked since January 1.

Developments in Companies Recently Discussed

Baldwin Locomotive, through its Midvale subsidiary, received about \$8,000,000 of the \$24,000,000 of armor plate contracts recently placed by the Navy. Bethlehem and U. S. Steel, only other domestic concerns equipped to turn out heavy armor, also shared in the business. The order is of relatively greater importance to Baldwin, however, than to the two larger corporations. Including a \$4,000,000 locomotive order from Southern Pacific, new business booked in February probably reached \$14,000,000, the largest monthly total since the company began reporting these figures in 1930.

Chairman Sewell Avery of U. S. Gypsum stated at that company's recent annual meeting that February sales were up 13 per cent from a year ago following a 20 per cent rise in January. Net income in January was equal, after allowance for preferred requirements, to 16 cents per share as compaed with 5 cents in the same month of 1938. Demand for the company's products normally lags somewhat behind the general building curve and it is only now beginning to feel the effect of the rise in construction contract awards that began last fall. According to trade reports, leading producers of fabricated building materials, including U. S. Gypsum, are planning no increase in prices that might forestall the expected further rise in building activity this spring and summer, believing it wiser to depend primarily on volume.

The encouraging outlook for the rubber industry was emphasized by U. S. Rubber's action in declaring two dividends of \$2 each on the 8% non-cumulative preferred stock payable March 24 and June 23. A payment of \$4 at the close of 1938 was the first distribution on this issue in ten years. A substantial increase in both original equipment and replacement tire business is expected in the next three months and the higher prices recently put into effect by the industry will aid profit margins. Continued firmness in crude rubber quotations is probable as a result of the International Rubber Regulation Committee's decision to maintain the present 50 per cent export quota in the second quarter. U. S. Rubber has more to gain than any of its competitors from strong crude prices since its plantations supply a comparatively large part of its manufacturing requirements.

The slight decline in earnings of Consolidated Edison from \$2.17 per share in 1937 to \$2.09 last year was probably entirely due to non-recurring charges in the fourth quarter. But for expenses in connection with last fall's hurricane and expenditures for construction at the World's Fair, results would likely have equalled or bettered those of the preceding year. Sales of electricity, which were up 2.89 per cent in terms of kilowatt hours last year, will probably continue to gain in 1939 especially with the opening of the Fair two months hence.

As The Trader Sees Today's Market

The Trading Shelf — Bonds as Forecasters

BY FREDERICK K. DODGE

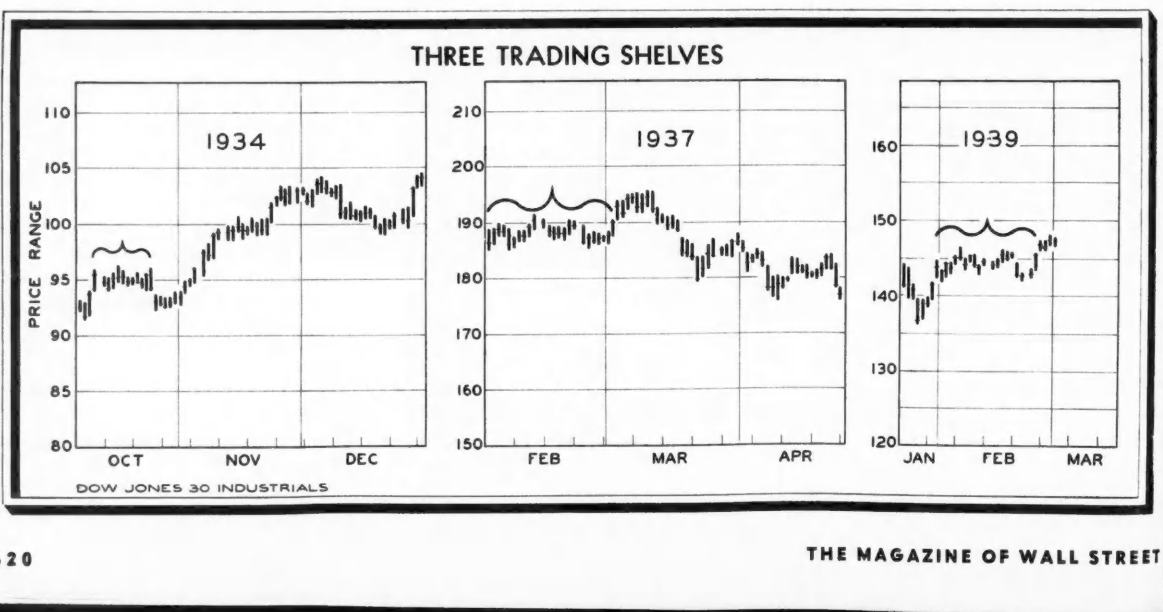
MANY names and many definitions are given for the type of stock market which goes along for weeks in an extremely narrow trading range. Some call the formation a "line"; others, having in mind the usual sequel which involves a shift of definite proportions, call it a "trading shelf." The important characteristic is that prices hold within definite limits—say 3 per cent of their current level—over a considerable length of time. Indicating a stalemate between bulls and bears, where supply and demand appear to be in equilibrium, the theory is widespread that the direction of the break out of the range when it finally comes is to be the direction of a substantial move.

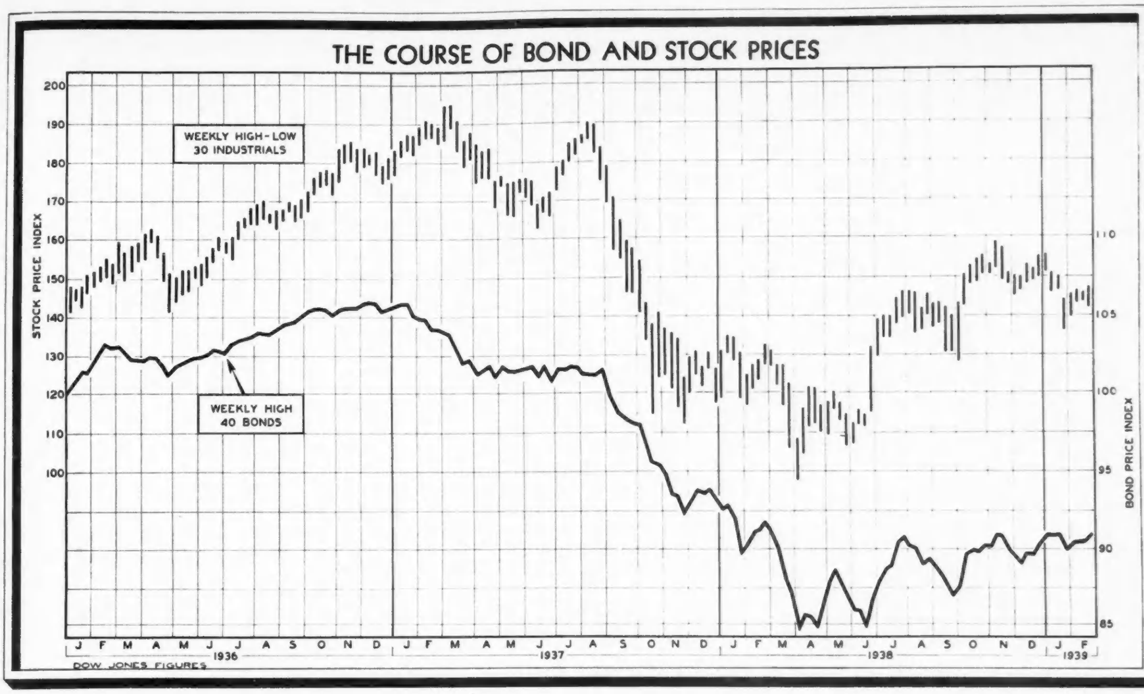
It is reasonable to believe that when one of these formations ends with a rise beyond the upper limits of the range some fundamental change in the supply-demand relationship has taken place. Buyers have shown the initiative and have put up the cash to back their opinions. Prices which satisfied both parties a week earlier no longer induce a normal amount of selling. Stocks have become hard to buy; that is, they are traded on or near the offers rather than the bids. Having acquired momentum in this direction, the only thing needed to keep prices moving upward is enough of a following to prevent cooling off.

But at the risk of causing innumerable arguments as to the correct definition of a line formation (which is, of course, a matter of opinion), the usefulness of the narrow trading range and subsequent breakout *as a direction indicator* for the average trader is hereby challenged. For every example taken from past markets which appears to support the theory, two can be found to combat it. These are explained away by calling them false breakouts, but the explanation is small comfort in retrospect, when decisive penetration of an upper limit has induced buying just before the market reversed and fell through the lower limit.

Examples of three trading shelves are given here, the latest one that of the last few weeks. Anyone interested in the subject should study dozens of these formations before attempting to use them for any practical purpose save one. They represent an artificial condition of suspense which cannot last more than a certain length of time. The longer they do last, the surer one can be that a move of some sort is rapidly approaching. Using the trend in volume as well as price, good results can be attained in *timing* the next move with these formations, even if they are unreliable in indicating direction.

The examples shown here are necessarily limited in number and they have been chosen to illustrate the





dangers. In the first one a false breakout on the downside, which presumably would have caused one to sell, was followed by a long rise. Theoretically the precaution is to buy back as soon as the market again enters the trading range and goes through it on the upper side, but in practice this is both expensive and difficult, not to say improbable, human nature being what it is. The second example, in the spring of 1937, is simply the reverse of the first, the peak of the long bull market being closely preceded by a breakout which apparently indicated higher prices.

Notice that the illustrating charts are drawn to scales which are strictly comparable on a percentage basis. Fluctuations of 1 per cent of the price cover equal spans on each chart, although in points the ranges vary considerably. An average can be expected to register wider moves about a level of 190 than about one of 95.

The answer to the final example is yet to be supplied. Was the dip prior to the upside penetration one of the numerous false breakouts? If so, what are the chances that the upward move will be the valid one? Experience indicates that the formation to date must be given a bullish construction, for a second reversal carrying through the trading shelf in the opposition direction is a rare phenomenon. Nevertheless, it is safer to confine predictions to the sphere of timing, and to hazard the opinion that the market will shortly be in territory well removed in one direction or the other from its recent trading shelf.

Bonds as Forecasters

Reference has frequently been made in these pages to the forecasting value of bond prices on the future course of the stock market. Yet to judge from recent correspondence, the chart which was published a year ago can well be brought up to date and reexamined. It appears herewith, extended to the end of February.

A glance shows that the trend in bonds turned downward in February, 1936, two months before stocks met their one-month reaction. The dip in the summer of 1938 was also anticipated although to a smaller extent by the bond market. Neither of these were major turns, however, and warnings given by bond prices of intermediate reactions must be taken as mainly fortuitous. The turn in the stock market which came in March, 1937, was three months later than the December top in the bond average. It must be remembered, of course, that the presence in the bond average of many issues limited by call prices and low yields places a ceiling over it which could be penetrated only under very unusual circumstances, while the stock market is not so limited. Nevertheless the fact remains that when the forty bonds halted, reacted, tried again, to be quickly stopped, and then turned definitely downward early in 1937, reversal of the major trend in the stock market soon followed. Again on the summer rally the bond market refused to live up to the promising action being given by stocks, and the bond market was right.

While the relationship has not always been so close as we go farther back in history, yet bond prices have seldom failed to warn at critical points.

Why is this so?

Bond prices tend to anticipate major stock price movements in large part as a result of the policy of commercial banks. This is particularly true in forecasting a decline. In the latter phases of a strong up-cycle in business, bankers naturally foresee an increasing demand for commercial loans. They recognize the rise in business activities, the larger inventories and the need for funds to carry them, and in anticipation of these things they begin first to slow down on additions to the investment account and later actually to reduce commitments in bonds of various grades. (*Please turn to page* 641)

Another Look At....

J. C. PENNEY

CLIMAX MOLYBDENUM

WHEELING STEEL

CLUETT PEABODY

BY THE MAGAZINE OF WALL STREET STAFF

LOOKING back after a rise in the general market is always a pleasant exercise, particularly so in the case of two of the issues discussed here, both up 100 per cent in about a year. Even the investors with such profits have a problem, however, as do those in the stocks which have failed to progress. By occasionally checking over recent developments in companies which formed the subjects of earlier articles, the staff aims to bring interpretations up to date for the benefit of readers. The conclusions may be argued against, but the very act of re-forming and re-stating an opinion on his securities will be constructive for any investor.

Sales continue to gain for J. C. Penney Co. Business of this chain crossed the corresponding month of the year before last November for the first time with an increase of 0.3 per cent. In December the gain was 2.4 per cent and in January of 1939 it was 8.2 per cent. With profit margins understood to be holding up around highly satisfactory levels, a jump in profits is clearly indicated for 1939 unless adverse developments in the general business picture interfere. Although the stock is responding to this outlook by making new highs for the year, it is still only about 9 points higher than when J. C. Penney was discussed in our issue of October 23, 1937.

Profits for the full year 1938 were equal to $5.40 a share, as compared with $6.52 in the preceding year. Although sales were lower by almost $17,00,000, taxes were only slightly lower and that because of the absence of a surtax on undistributed profits. This was by no means a bad showing, however, considering the fact that some early months showed decreases of as much as 17 per cent in volume. Dividends of $4.25 in 1938 were somewhat lower.

Coming months should give Penney the opportunity to show some very extensive sales gains over a year ago, and stability in raw material prices as well as in other costs would mean no interference with normal profit margins. Government payments to farmers will do much to recompense for lower agricultural prices, while generally increased spending by the public seems definitely predictable.

At a price of 84, this issue would yield 5 per cent on last year's dividend payments. The improvement in price from the low point of approximately 55 seems less than proportionate to the gain in current and prospective earnings, while the strength of the company augurs well for future dividends. All in all, Penney is one of the more conservative issues affording a satisfactory yield and at the same time holding out some promise of price appreciation under favorable conditions.

Light producers, such as Wheeling Steel, have experienced a rapid turn in their operating results. Wheeling was discussed in these pages in the issue of January 1, 1938, bringing out its dependence upon the more nearly direct forms of consumer purchasing power. The automobile industry, for instance, is the largest single customer, and tin plate is next in importance. Takings of both types of products respond quickly to changes in consumer demand, not waiting for the slow-starting but eventually dynamic surge toward heavy steel. Wheeling's many miscellaneous products—barbed wire, tanks, galvanized roofing, metal lath, shovels, pails, and so forth —are further gears linking the company's fortunes closely to the general rate of spending.

Thanks to this connection, the change in business confidence which had its start at mid-year began almost immediately to affect Wheeling's 1938 earnings results. The first two quarters of the year had brought substantial losses—a total of $1,155,923 for the six months, before allowance for preferred dividends. The third quarter, however, netted the company a profit of $606,908, equal after preferred dividends to 22 cents a share on the 563,286 shares of common stock outstanding, and reduced the loss for the nine-month period to $549,015. It is quite posible that for the full year 1938 Wheeling may have managed to show either some small earnings or a minute loss.

More important than the actual result for all of 1938 is the demonstration of profit-making ability given in the last half. The common stock is selling only a point or two above the price of 25 prevailing at the time over a year ago when its prospects were outlined here. Meanwhile some discouraging months have been endured, and although small unpaid dividends on the preferred issues have accumulated, the outlook from the stand-

point of the common stock has unquestionably improved. Heavy producers may look forward to wider gains in profits when and if recovery broadens, but the leverage contained in Wheeling's capital structure nevertheless gives the common a good deal of speculative appeal at

An unusual record is that of Climax Molybdenum, setting new profit peaks in 1936 and 1937, then following them up with a performance in the first nine months of last year which has made it extremely likely that 1938 saw a new high in earnings. When this stock was analyzed in THE MAGAZINE OF WALL STREET in the issue of December 18, 1937, its price of 28 was considered low in view of the obviously powerful growth factor present. Several times since then, mainly at successively higher prices, the possibilities in Climax Molybdenum have been pointed out, and the stock has on two drives managed to cross 60 by fractional margins. Dividends have also risen to new highs, totaling $2.20 for 1938 against $1.70 in the previous year.

Small doubts can be entertained of this company's inherently strong position when it is realized that despite the sharp drop in steel operations last year profits for the first nine months of 1938 were equal to $2.09 a share, compared with $2.12 in the same period a year earlier. Furthermore, the third quarter was well ahead of the corresponding quarter in 1937, with net of 87 cents a share against 52 cents. That the 1937 record of $2.85 a share earned for the full year may well have been exceeded in 1938 is indicated by the difference in trend between the fourth quarters of the two years, one pointing down and the other up.

Although the future looks as promising as ever for this dominant producer of molybdenum, the price of the stock now prevailing raises new questions for its owners. It is obviously predicated upon considerable extension of the growth which has already taken place; at its recent high of 60 the stock was selling at more than twenty times the largest earnings in its history. There is no apparent reason why current promise in the company's affairs should not be lived up to, but any issue registering such wide gains over the course of a year and counting so heavily upon future increases in a young business must be treated with caution. Those who were fortunate enough to purchase Climax Molybdenum at 28 might be able on another display of strength to withdraw their original dollar commitment in full, retaining half of their stock as a speculation without actual cost.

Sharp pick-up in final half enabled Cluett, Peabody & Co. to show larger profits in 1938 than in the preceding year. Income for 1937 was penalized by an inventory writedown of $417,000, while 1938 brought no such necessity, but a further cause of the gain was an increase of more than 25 per cent in net royalties from the company's sanforizing process. For the first half of 1938 net income equaled only 29 cents a share on the common stock, against 85 cents in the first half of 1937; then in the last six months all lines picked up, bringing net earnings for the year to $1.28 on the common, as compared with 72 cents for 1937, when the inventory loss resulted in smaller earnings for the full year than for the first half alone.

Net royalties from the sanforizing process amounted to $540,550 or approximately 80 cents on each of the 677,844 common shares outstanding. Although the early part of last year included some poor months for the textile business, yardage of goods treated by Cluett , Peabody's process set a new all-time record at 550,000,000 yards, 110,000,000 yards above the level attained in the preceding year.

Recent developments among users have improved the outlook for sanforizing. Leading mills have removed the premium formerly charged for fabrics shrunk by this method, which should induce wider acceptance. A ruling of the Federal Trade Commission last year that all merchandise sold as preshrunk must state the amount of residual shrinkage is also helpful, inasmuch as sanforizing is efficient within a tolerance of one-half of one per cent. Cluett is understood to be experimenting on the application of the process to synthetic materials.

The stock at 30 is exactly twice its level when discussed in our issue of October 23, 1937. The outlook is now much clearer and it is for continued progress in the company's profits, but on a comparative basis the stock has naturally lost some of its attractiveness. The chances are that percentage gains will be much slower and more moderate from here, even granting that 1939 will be a better year than 1938 for both earnings and dividends. At the same time, not all of the speculative appeal has been cancelled by the stock's move into new high ground since its three-for-one split in 1937.

Nesmith

Wheeling Steel Corporation's plant on the Ohio River, Wheeling, W. Va.

Six Stocks for First Quarter Profits

SELECTED BY THE MAGAZINE OF WALL STREET STAFF

H. L. Green Co.

Recent Price	1937-38 Price Range High	Low	Dividend
32	39½	13⅜	$1.60

Functioning both as a holding and operating company, activities of H. L. Green Co. embrace the operation of a chain of variety stores. Of the 133 units comprising the company's domestic chain, at the close of 1938, a substantial number were located in the states of New York, New Jersey and Pennsylvania. A subsidiary, Metropolitan Stores, Ltd., operates a chain of fifty-nine units located throughout Canada. Merchandise carried includes a wide variety of items such as toilet goods, jewelry, candy, hosiery, electrical supplies, hardware, housefurnishings, etc., priced between 5 cents and one dollar.

Since 1933, when net sales totaled $23,418,477, the company's business volume has climbed steadily and reached a peak of $33,458,752 in the fiscal period ended January 31, 1938. Last year sales declined 3.2 per cent and for the fiscal period ended January 31, 1939, totaled $32,398,266. However, considering the fact that the company closed three stores during the year, plus the sharp deterioration in public purchasing power which occurred in the first six months, the most recent showing may be regarded as entirely satisfactory, comparing quite favorably with that of many other larger chain store units.

Full report covering operations for the past year is not yet available, but it is a safe assumption that earnings will show only a moderate decline from the level of $3.02 a share shown for the common stock in the 1937-38 fiscal period. Such an assumption draws further support from the recent action of directors in declaring an extra 60-cent dividend, in addition to the regular quarterly payment of 40 cents.

According to the most recent available report, in addition to 597,792 shares of common stock, there are 3,000 shares of $7 preferred stock, $4,000,000 in unassumed subsidiary mortgages and $750,000 in mortgages payable. Current assets as of January 31, 1938, amounted to $6,760,157, while current liabilities were $1,660,440.

From all indications, it would appear that H. L. Green Co. has an excellent opportunity to realize earnings at least as good, if not better, than were shown in the 1936-37 fiscal year, when the equivalent of $3.45 per share was shown. Sales in January were nearly 12 per cent larger than in January, 1938; further gains should conform to the pace of general business recovery; and there is a possibility that earnings of its Canadian subsidiary, which are not consolidated, may this year attain a level which would justify the disbursement of a dividend. Also in the company's favor is the waning demand for anti-chain store legislation and punitive tax measures directed against chain store units.

Selling at 32, the shares are obtainable to yield 5 per cent, on the basis of regular dividends alone. It is not unlikely, however, that regular dividends will again be augmented by extras. Thus, not only are the shares attractive for income, but appear reasonably priced in relation to current earnings and as the trend becomes more clearly defined, higher quotations would doubtless be in order.

Flintkote Co.

Recent Price	1937-38 Price Range High	Low	Dividend
30	46¼	10⅞	$0.60

One of the most promising aspects of the current business picture is the rather well founded expectation of further important gains in the volume of residential and industrial construction. Building activity, well sustained in the face of the general business recession last year, has already made an auspicious start in 1939. According to figures compiled by the F. W. Dodge Corp., contracts for private construction in thirty-seven eastern states awarded in January recorded a 39 per cent gain over January, 1938. Combined January total for both public and private construction amounted to $251,673,000, a 30 per cent increase over January a year ago; this was the largest opening month total for any year since 1930. Heavy engineering awards in January of this year represented a gain of 64 per cent over a year ago. Although figures are not available, it is a fairly reasonable assumption that similar important gains were recorded in modernization and repair projects. In all of which, Flintkote Co. has an important stake.

Flintkote Co. engages in the manufacture and sale of such building products as shingles, rolled roofing, insula-

tion boards and roof coatings. In this field, the company occupies an important position, but largely due to factors beyond its control, a statistical review of operations in recent years may not appear particularly impressive. Notwithstanding the rising level of building activity in 1936 and 1937, the company's earnings declined in these years. In 1936 sales recorded a substantial advance over 1935 but, due to unfavorable price levels, earnings were restricted. Net in that year was equal to $1.75 per share, comparing with $1.96 a share in 1935. In the first six months of 1937, the company earned $659,233, an increase of nearly $200,000 over the corresponding months of 1936. As a result, however, of adverse conditions which arose in the final six months, sales fell off sharply and earnings in the full 1937 year totaled only $1,005,423, or the equivalent of $1.50 a share. Last year sales totaled $15,147,709, as compared with $15,163,867 in 1937. Net in 1938 of $811,818 was equal to $1.21 a share on 672,996 shares of capital stock, compared with $1.50 a share earned on 670,246 shares in 1937. In view of the fact, however, that the company's profit in the first six months totaled less than $270,000, it is rather apparent that substantial improvement occurred in the final half of last year, and it has been officially intimated that this upward trend has been accorded further impetus in the opening months of the current year.

Last year the company paid a year-end dividend of 60 cents, as compared with 25 cents a year earlier and at the close of the year current assets, including $1,432,986 cash, amounted to $5,308,697, while current liabilities were $1,453,288.

With the benefit of better price levels and rising volume, Flintkote this year may well make the best showing in recent years. This possibility is, at least, speculatively a worthwhile feature, sufficient to lend attraction to the shares at recent levels around 30.

Abbott Laboratories

Recent Price	1937-38 Price Range High	Low	Dividend
58	61	36	$1.60

The Crucible Steel Co. promises to be one of the leading beneficiaries of the extensive rearmament program upon which the United States is embarking. The company is rated one of the foremost manufacturers of alloy and specialty steels, of which a considerable portion is utilized in the manufacture of high-speed machine tools. The company, in addition, manufactures projectiles, gun forgings, as well as steel for propellers, turbines, shafts and deck plates, rifle bores, etc. Certain types of the company's specialty steels are utilized in the manufacture of aircraft engines, structural parts and landing gears. Suggesting the potentialities in the company's field are trade estimates to the effect that the percentage of obsolescence in machine tool equipment in Government arsenals exceeds 65 per cent.

As might be expected from the specialized character of the company's activities, earnings in the past have displayed wide fluctuations. It must be conceded, however, that under anything resembling normal conditions, Crucible's earning power has been substantial. In 1937 the company's sales totaled nearly $60,000,000 and net income in that year of $4,017,931 was equivalent, after allowance for annual dividends on the 238,000 shares of 7 per cent preferred stock, to $5.21 a share for the 450,000 shares of common stock. In 1936 per share earnings on the common were equal to $3.10. Last year, of course, the company's sales and earnings reflected the severe slump experienced throughout the entire steel industry, particularly in the first six months. In the latter period Crucible reported a net loss of $1,540,360, contrasting with earnings of $3,099,797 in the same period of 1937. The company's report covering full year's operations has not yet been issued, but in the closing months of the year operations averaged somewhat better than those of the steel industry as a whole and it is a safe assumption that the company's showing in the last half of 1938 was appreciably better than in the initial six months.

Ahead of the preferred and common shares is total funded debt of $11,500,000 and accumulated unpaid dividends on the preferred shares, totaling $31.50 per share, aggregating about $7,500,000. While the latter item stands as a substantial obstacle to the payment of common dividends, it is to be doubted if the company would experience any undue difficulty, with the benefit of a period of sustained earnings, in making suitable provisions for the liquidation of preferred accumulations. At last reports, financial position was comfortable. As of June 30, last, current assets, including nearly $2,500,000 cash, amounted to $18,610,147, while current liabilities were less than $5,000,000.

Recent levels of around 42 for Crucible Steel common compare with the 1939 high of 47¾. Some measure of the speculative possibilities is suggested by the fact that in 1937 the shares sold at a high of 81¾. The promise of substantial improvement in the company's sales and earnings in the months ahead appears to be sufficiently well founded to lend a considerable measure of attraction to the shares, from the standpoint of possible price appreciation.

Crucible Steel Co. of America

Recent Price	1937-38 Price Range High	Low	Dividend
42	81¾	19¼	None

To Abbott Laboratories goes the distinction of having reported record-breaking sales and earnings in the past year—a year in which many companies considered themselves fortunate to show even a modest profit.

The company, organized in the beginning of the present century, is a prominent manufacturer of pharmaceutical, biological, chemical and vitamin products. The company's history has been featured by steady growth and unusually well sustained earning power, both under favorable and adverse conditions. Dividends were maintained throughout the last depression, while profits suffered but a relatively moderate decline between 1929 and 1932 and thereafter not only were earnings prompt to recover lost ground but established successive new high records in each year from 1934 to 1938.

Total sales last year amounted to $9,726,952, compared with $9,509,911 in 1937. Net income last year, after charging off all development expenses in connection with operations in foreign countries, totaled $1,648,326,

equal after preferred dividend requirements to $2.43 a share on the 640,090 shares of common stock. Net in 1937 of $1,612,360 was equal to $2.51 per share on the same number of common shares. Active research has steadily broadened the company's list of products and sales field and these products have undoubtedly made possible the persistent upturn in sales and earnings in recent years.

At the close of last year, the company's balance sheet disclosed current assets, including nearly $3,000,000 cash and marketable securities, of $8,060,688, and current liabilities of $1,014,435. There is no funded debt and ahead of the common stock are only 19,995 shares of 4½ per cent convertible preferred stock. Last year dividends were paid at the rate of 40 cents quarterly and were augmented by a 10-cent extra. Recently the company declared a similar extra disbursement.

In addition to a further expansion in sales and earnings which may be logically expected this year, expenses incidental to the company's operations in foreign countries should be substantially less than in 1938. All in all, the shares appear to offer a dependable income-producing vehicle, of the type which promises gradual but important enhancement in value.

Ex-Cell-O Corp.

Recent Price	1937-38 Price Range High	Low	Dividend
22	27⅝	8	$0.80

Sales and earnings of Ex-Cell-O Corp. this year promise to derive considerable impetus from re-tooling activities both on the part of the Government and private industry. The company engages in the manufacture of small precision tools, such as diamond drills, cutting, grinding and other devices. Recent years have witnessed considerable expansion and diversification in the company's output and now included among its products are aircraft tools and engine parts, Diesel engine fuel pumps, standardized car and locomotive pins and bushings, and more recently a machine which forms, sterilizes, fills, seals and dates single service containers for milk and other dairy products. Exports account for a fairly sizable proportion of the company's total sales volume. Formerly, Ex-Cell-O Corp. was heavily dependent upon takings by automobile manufacturers. With diversification, however, this dependence upon a single industry has been decreased to good advantage. Furthermore, this fundamental factor of diversification undoubtedly enabled the company to show a more sustained level of sales and earnings last year than might otherwise have been possible under the adverse conditions which prevailed, particularly during the first six months.

For the nine months to September 30, last, profits of $301,693 were equal to 76 cents a share on 393,345 shares of stock which comprise the entire capitalization. The probabilities are that for the full year earnings were slightly better than $1 a share, which would compare with $1.69 earned in 1937. Recently, dividends have been paid at the rate of 20 cents a share quarterly.

Current prospects for Ex-Cell-O Corp. are favored by such factors as the promise of a broader and higher level of general business activity. Increased industrial demand for its products emanating from such sources as automobile manufacturers, aircraft manufacturers, the railway equipment industry, and rearmament activity are likely to further swell the total volume. On the whole, therefore, the shares at 22 would seem to represent fairly sound speculative value and, acquired for holding over the next several months, they should prove a profitable medium.

U. S. Pipe & Foundry Co.

Recent Price	1937-38 Price Range High	Low	Dividend
46	72¼	21½	$2.00

U. S. Pipe & Foundry Co. has long been the ranking domestic producer of cast iron pipe, used chiefly in the construction of water mains and the distribution of artificial gas. The nature of the company's business obviously is such that earning power is characterized by extreme cyclical fluctuations. That is to say, for the most part, sales and earnings are dependent upon the growth of communities, and federal and municipal outlays for replacement work. In 1932, for example, the company showed a loss of $1,273,054. Although some improvement was shown in subsequent years, substantial gain in earning power was not recorded until 1936 when net of $2,427,867 was equivalent to $3.45 a share for the common stock. The latter showing was by far the best in recent years and fell only moderately short of the 1929 level. Volume was fairly well sustained in 1937 and in that year net income of $2,235,756 was equal to $3.21 a share. Last year, the company earned $1.12 a share in the first six months and $1.26 a share in the final half, or a total of $2.38 a share for the common stock in the full year.

Currently the outlook is distinctly more promising. With both federal and municipal expenditures promising to mount substantially, there is a strong possibility that profits will attain the 1936-37 level. It has been estimated that January was the most promising initial month for any year since the 1930-31 period and unfilled orders on the company's books at the present time are believed to be the largest since March, 1937. Cast iron pipe ordered in the last half of 1938 will come into profit account in the months now passing, and the lag between PWA appropriations and the amount of business reaching the company will sustain income well beyond the point where Government projects begin to dwindle. The outlook is therefore promising for the immediate future and for the somewhat longer term as well, when private construction should gain greater momentum.

At last reports, the company's capitalization comprised $958,000 convertible debenture 3½s of 1946 and 695,923 shares of common stock. A strong financial position is a characteristic feature of the company. Dividends are being paid at the rate of $2 annually on the common stock.

At 46, the shares are admittedly priced to reflect a measure of the improved current outlook. That possibilities for speculative price appreciation are by no means exhausted, however, is suggested by the fact that in 1937 the shares sold at 72¼ and if the current promise is borne out, there is an excellent chance that the latter price may again be approached or bettered.

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Motor Wheel Corporation

In view of the greatly improved automobile outlook, am I doing well to retain 150 Motor Wheel, which cost 24⅞? How is the company's oil burner division contributing to earnings? Is this stock likely to show substantial percentage appreciation over the coming months?—D. E., Chicago, Ill.

Motor Wheel Corporation reported earnings of 73 cents per share for the year ended December 31, 1938, as against per share results of $2.11 in 1937. Since the first half of the year just closed produced a deficit of 10 cents per share it is obvious that a sharp reversal of earnings occurred in the third and fourth quarters, particularly in the latter when 53 cents of the year's earnings were recorded. The company is one of the two larger manufacturers of steel wheels, making several types for automobiles and trucks. The larger share of volume comprises parts sold to motor vehicle builders as original equipment. Leading customers include Chrysler, General Motors, Hudson and others. In recent years the company has been developing a program of diversification and has entered the field of non-automotive products, including wooden liquor barrels and oil heating equipment. The trade position of Motor Wheel, which suffered with the shift from wooden wheels, has now apparently been regained and reasonably good average earning power has been shown. However, the fairly constant pressure on original equipment prices and higher operating costs have been adverse factors so that profit margins have been lower. Sales volume is, of course, importantly connected with the rate of automobile production and necessarily results in marked changes in volume. However, current higher automobile activity should find reflection in improved earnings for Motor Wheel, while the cooperage division should also contribute to net. The oil burner division does not yet appear to have developed important earning power. An indication of the management's optimism for continued near-term improvement in earnings is seen in the recent declaration of a dividend of 40 cents per share, payable March 10; in 1938 only two dividends of 20 cents each were paid. It is likely, therefore, that dividend disbursements for the current year will exceed those of 1938 by a comfortable margin. Year-end financial condition was strong. Under present conditions the common stock, which represents the sole capital liability, would appear to represent an attractive speculation on further recovery in the motor industry and retention seems the logical course of procedure.

Texas Pacific Coal & Oil Co.

Despite the fact that Texas Pacific Coal & Oil reported a larger income for the first nine months of 1938 than during the same period of 1937, why is the common stock so close to its low for the past year? Are considerably higher prices in prospect? Would you hold 500 shares at 15½?—P. R., Mobile, Ala.

Gross earnings of Texas Pacific Coal & Oil for the nine months ended September 30, 1938, approximated those for the initial nine months of 1937, but a reduction in expenses permitted slightly larger per share earnings, equal to 88 cents, as against 80 cents for the first three quarters of the previous year. Earnings in the last quarter of 1938 probably were affected to some extent by the lower trend of crude oil prices so that estimates of earnings for the full year are around $1 a share. The lower crude price also points to somewhat lower earnings for the earlier part of the current year, but the longer range outlook is more promising because of the stimulus to production of continued property developments. The company is one of the smaller units in the industry and is engaged chiefly in the basic crude oil division. Operations are centered primarily in Texas. In one

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portion of that State where the company has a large number of wells, production per well is quite low. Prospects would appear to lie chiefly in new developments in properties in West Texas and New Mexico, where large areas for possible production have been opened. Less important interests of Texas Pacific include the manufacture of a moderate amount of casing-head gasoline, the operation of a small refinery, and the marketing of petroleum products on a moderate scale in Texas. Capitalization is represented solely by the common stock outstanding at 888,237 shares of $10 par each. Dividends on the issue have been at the rate of 10 cents quarterly and although earnings would permit greater distributions, this is not a likelihood since in a business of this type large expenditures are required for property development. Marketwise, the stock will probably remain uninteresting over the near term until crude oil prices rise to a higher level. As a speculation on crude oil production development, the capital stock possesses promising long range enhancement possibilities and for one willing to exercise patience, we would recommend retention on that basis.

United Dyewood Corp.

I hold 200 shares of United Dyewood common. At present I have a paper loss of 15 points. My broker tells me to hold on, however, hoping for a decided increase in earnings through foreign subsidiaries. What is your opinion of the outlook for this stock?—D. J. T., Tulsa, Okla.

United Dyewood Corp. is a holding company, subsidiaries of which make dyes, canning extracts and other chemical products from logwood, the latter being obtained from extensive reserves owned in the West Indies. In recent years, the company's markets have been affected by competition from synthetic coal color dyes, but the natural products still find use in the woolen goods, leather, fur and silk trades. Approximately one-half of the total business is confined to foreign markets, principally France and Great Britain. Indications are that the company just about broke even on 1938 operations. In the initial half of the year, a net loss of $73,897 was registered as against a net profit of $234,672, or 95 cents per common share, in the first six months of 1937. However, improvement in the textile and leather industries probably resulted in a larger volume of domestic business in the final half of 1938, although the unsettled political and economic conditions abroad may have had an adverse influence on the comparatively large foreign operations. Full year results may also be affected by adjustments based on the amount and type of year-end foreign exchange. Capitalization consists of 29,170 shares of $7 preferred stock and 139,000 common shares. Dividend distributions in recent years have been erratic, the last payment being a 25-cent disbursement on January 3, 1938. In 1937, $1.50 was paid and in 1936, $1.25. No dividends were paid from 1929 to 1935. The fact that dividends have been available for the stock in recent years is a reflection of the success of the management in creating greater efficiency in the American plant, rather than to larger sales. The current outlook for the company is better, but uncertainties abroad inject a considerable element of speculation into earnings prospects. Dividend payments on the common do not appear a likelihood in the near future, but the issue possesses moderate speculative possibilities and retention might be exercised on that basis.

Lehn & Fink Products Corp.

Noting that earnings of Lehn & Fink recovered sharply in the third quarter of 1938, I am wondering whether your analysts believe this upward earnings trend will be maintained this year. Is the $1.25 dividend secure? Shall I continue to hold 150 shares of this stock acquired 10 points above current levels?—S. F., Dallas, Texas.

While Lehn & Fink still occupies a strong position in the drug and pharmaceutical fields with such products as its "Lysol" disinfectant, "Hinds' Honey and Almond Cream," and "Pebeco" toothpaste, competition has become increasingly severe in recent years, and has affected sales volume of practically all lines, principally such important items as "Pebeco" and "Hinds' Honey and Almond Cream," in spite of intensive advertising. In only one year since 1929, when per share results equalled $4.10, has the downward trend of earnings been stemmed. In 1936, net income was equal to $1.71 per share as against $1.03 in 1935, but in 1937 they again declined to $1.33 per share. For the first nine months of 1938 the company earned 89 cents per common share as compared with 80 cents per common share for the corresponding period of 1937. Despite the sharp recovery of earnings in the third quarter of 1938, results for the full year are not expected to top the $1.33 per share reported for 1937. The type of products manufactured by Lehn & Fink are heavily dependent on advertising, and advertising costs are high in relation to other expenses. Sales are not only subject to the whims of consumer preference but also to the uncertainties of general business conditions. However, recent improvement in the latter may provide a reversal of the long term decline in sales, but prospects for substantial expansion are not a near term prospect. The common stock, outstanding at 400,000 shares, constitutes the sole capital liability and because of the company's strong financial condition are likely to continue to receive the benefit of the current dividend rate. In the light of conditions surrounding the company, the shares, obviously, occupy a speculative position but we favor retention at this time pending a demonstration of the company's ability to continue the recently registered improvement.

Youngstown Sheet & Tube Co.

Do you think I am correct in retaining 50 shares of Youngstown Sheet & Tube which cost me 85¼? Are its operations now above the "pay point" so that the large leverage of the common stock will greatly stimulate per share earnings from now on? Will the company benefit from armament expenditures?—L. T., Cleveland, Ohio.

Youngstown Sheet & Tube Co. has in recent years pursued a policy of diversification of products, and has greatly reduced its former heavy dependence on pipe and tubular goods. The latter still accounts for about half of total finishing capacity, but the company has demonstrated ability to show satisfactory profits with only moderate aid from that division. Sheets and strip account for about 20% of total finish-

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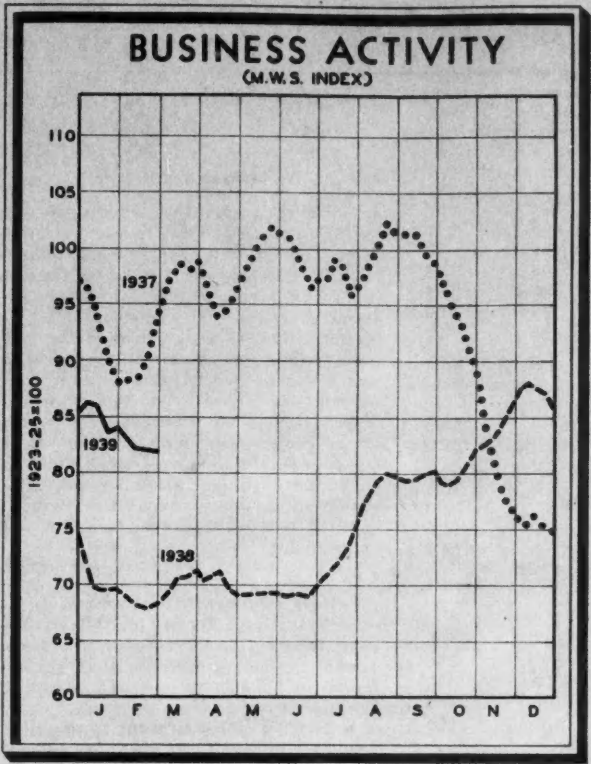


CONCLUSIONS

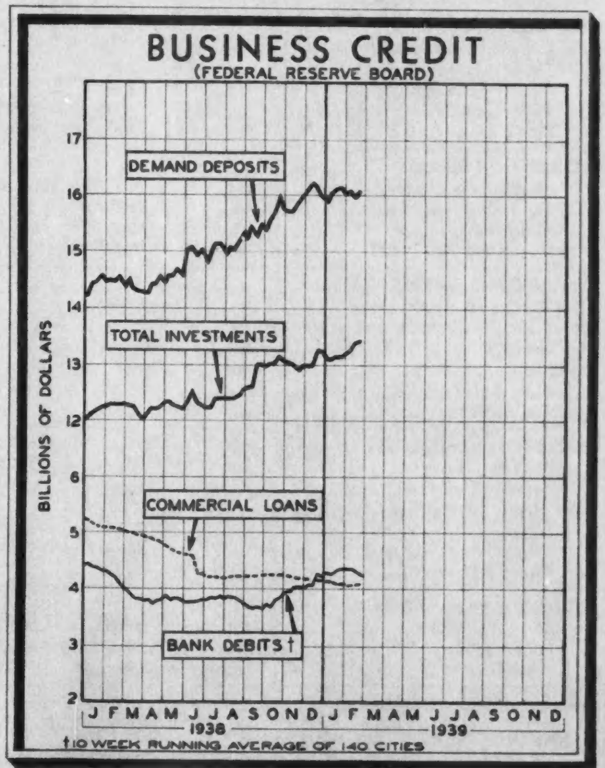
INDUSTRY—Better peace prospects brighten business outlook.

TRADE—Retail sales again above last year.

COMMODITIES—Raw material prices stiffen.

MONEY AND CREDIT—Commercial borrowings show modest gain.

The Business Analyst



The fact that only a third of last year's remarkable upsurge in **Business Activity** has since been retraced during the natural process of consolidating gains speaks well for the fundamental soundness of underlying economic conditions in the face of general uneasiness over foreign political prospects and local storms and sporadic labor strife at home. That apprehension over a possible upheaval abroad has been a major deterrent to vigorous recovery in the United States may be gleaned from recent reports disclosing that new capital raised through **flotation of corporate securities** in January amounted to a mere five millions, against 46 millions a year ago at the bottom of the depression; while the volume of ordinary life insurance written that month leaped to 50% above the total for January of 1938. Obviously business men at present are disposed to play safe and avoid venturesome new commitments. Industrial buying for the time being is strictly on a hand-to-mouth basis, despite the encouraging circumstance that corporate inventories on January 1st were 15% below last year.

* * *

There are indications, however, that the tidal wave of destructive political animosities has begun to ebb. Apparently, the "have not"

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Business and Industry

	Date	Latest Month	Previous Month	Last Year
INDUSTRIAL PRODUCTION (a)	Jan.	101	104	80
INDEX OF PRODUCTION AND TRADE (b)	Jan.	84	86	77
Production	Jan.	82	84	71
Durable Goods	Jan.	70	71	50
Non-durable Goods	Jan.	92	94	85
Primary Distribution	Jan.	78	80	75
Distribution to Consumers	Jan.	93	95	89
Miscellaneous Services	Jan.	78	83	82
WHOLESALE PRICES (h)	Jan.	76.9	77.0	80.9
COST OF LIVING (d)				
All items	Jan.	85.4	85.8	87.5
Food	Jan.	79.2	80.3	82.0
Housing	Jan.	86.2	86.2	88.2
Clothing	Jan.	72.7	73.0	76.7
Fuel and Light	Jan.	85.9	86.0	86.3
Sundries	Jan.	96.8	96.8	97.6
Purchasing value of dollar	Jan.	117.1	116.6	114.3
NATIONAL INCOME (cm)†	Jan.	$5,532	$5,945	$5,482
CASH FARM INCOME†				
Farm Marketing	Jan.	$586	$613	$603
Including Gov't Payments	Jan.	627	652	620
Total, First Month	1939	627	652	620
Prices Received by Farmers (ee)	Jan.	94	96	102
Prices Paid by Farmers (ee)	Jan.	120	120	126
Ratio Prices Received to Prices *Paid (ee)	Jan.	78	80	81
FACTORY EMPLOYMENT (f)				
Durable Goods	Jan.	81.4	83.1	81.7
Non-durable goods	Jan.	96.8	98.8	93.7
FACTORY PAYROLLS (f) (not adjusted)	Jan.	83.2	86.6	75.0
RETAIL TRADE				
Department Store Sales (f)	Jan.	88	89	90
Chain Store Sales (g)	Jan.	107.7	112.0	106.7
Variety Store Sales (g)	Jan.	113.0	122.0	109.0
Rural Retail Sales (j)	Jan.	110.0	129.3	104.3
Retail Prices (s) as of	Feb. 1	89.1	88.9	92.4
FOREIGN TRADE				
Merchandise Exports†	Jan.	$212.9	$268.8	$289.1
Cumulative year's total†	Jan.	212.9	......	289.1
Merchandise Imports†	Jan.	178.2	171.5	170.7
Cumulative year's total†	Jan.	178.2	......	170.7
RAILROAD EARNINGS				
Total Operating Revenues★	Jan.	$305,769	......	$279,108
Total Operating Expenditures★	Jan.	232,946	......	232,565
Taxes★	Jan.	29,086	......	28,615
Net Rwy. Operating Income★	Jan.	32,891	......	7,144
Operating Ratio %	Jan.	76.18	......	83.32
Rate of Return %	Jan.	2.40	......	0.52
BUILDING Contract Awards (k)	Jan.	$251.7	$389.4	$192.2
Publicly Financed†	Jan.	147.9	279.4	117.6
Privately Financed†	Jan.	103.8	110.0	74.6
F. H. A. Mortgages				
Selected for Appraisal†	1938	1,010.6	......	589.5
Accepted for Insurance†	1938	647.9	......	447.5
Premium Paying†	1938	473.2	......	424.4
Building Permits (c)				
214 Cities†	Jan.	$70.0	$67.3	$40.8
New York City†	Jan.	24.7	22.3	106.1
Total, U. S.†	Jan.	94.7	89.6	146.9
Engineering Contracts (En)†	Feb.	$203.8	$311.7	$209.5
CONSTRUCTION COST INDEX (En) 1913—100	Mar. 1	234.43	234.31	238.79

PRESENT POSITION AND OUTLOOK

(Continued from page 629)

nations abroad are too weak economically to succeed in a protracted military campaign, and so may consent to gain their ends by means other than force or threats of force. At home, the change in political temper is well reflected in Senate Democratic leader Barkley's predictions that, at the present session of Congress, there will be no anti-trust legislation, no new tax bills and no general farm legislation; though there probably will be railroad relief legislation and amendment of the Wagner Act. If war is averted in Europe, and if the Government does cooperate with private business at home, there will be a vast revival in world production and trade, which eventually should abolish unemployment, permit balancing of the Federal budget and remove the damper of radicalism in politics.

* * *

Factory employment in January was 1.7% above last year, with **factory payrolls** up 10.9%. **Farm income,** including Government loans and benefit payments, amounted to $627,000,000 in January—a 1% gain over last year. Exclusive of Government aid, however, there was a decrease of around 8%. **Department store sales** for week ended Feb. 18 were 2% above last year in dollar totals, compared with a four weeks' dip of 2%. **Variety store sales** in January were 2.5% larger than a year earlier. **Wholesale** and **retail prices** now average 3.5% lower than a year ago. World prices in gold for basic commodities are up fractionally from the lowest level reached in many years; but are still 13.5% below last year. Merchandise **exports** in January were 26.4% below last year, against a recession of only 7% for the calendar year, 1938. January **imports** were only 1% below last year, against a 35% decline for all of 1938. Excess exports in January came to $35,000,000, against $110,000,000 in January, 1938. The total gold value of world trade last year was 13.4% under that of 1937; with exports down 13.5% and imports off 13.2%.

* * *

With **carloadings** running currently about 10% above last year, the gross income of most roads ranges 8% to 15% higher than a year ago. First 18 Class I **railroads** to report for January show a gain of 6.5% in gross revenues and an increase of 16.4% in n. o. i. Economies in maintenance are being resorted to as a means of producing better net until such time as the expected revival in general business volume produces a larger increase in gross.

* * *

Construction contracts awarded during January in 37 States East of the Rockies amounted to $252,000,000, an increase of 30% over last year. Privately financed contracts were up 39%; but contracts for public-owned projects gained only 26%. **Engineering construction** awards during the latter part of February were about 24% below last year, reflecting in part the completion of PWA allotments, though private awards were off 41%.

	Date	Latest Month	Previous Month	Last Year
STEEL				
Ingot Production in tons★	Jan.	3,187	3,143	1,733
Pig Iron Production in tons★	Jan.	2,175	2,211	1,429
Shipments, U. S. Steel in tons★	Jan.	789	694	518
AUTOMOBILES				
Production				
Cars and Trucks, U. S. & Canada	Jan.	353,946	407,016	227,152
Total	1936	2,655,777	......	5,016,437
Retail Sales				
Passenger Cars, U. S. (p)	Jan.	204,000	226,973	145,732
Trucks, U. S. (p)	Jan.	38,900	31,474	35,473
PAPER (Newsprint)				
Production, U. S. & Canada★ (tons)	Jan.	285.6	285.6	295.0
Shipments, U. S. & Canada★ (tons)	Jan.	274.8	303.4	221.9
Mill Stocks, U. S. & Canada★ (tons)	Jan. 31	190.8	180.0	132.3
LIQUOR (Whisky)				
Production, Gals.★	Jan.	9,192	10,780	11,639
Withdrawn, Gals.★	Jan.	5,008	7,693	4,231
Stocks, Gals.★	Jan.	470,251	466,809	459,246
GENERAL				
Machine Tool Orders (n)	Jan.	150.8	146.5	118.4
Railway Equipment Orders (Ry)				
Locomotive	Feb.	3	8	109
Freight Cars	Feb.	2,004	3	17
Passenger Cars	Feb.	None	47	15
Cigarette Production†	Jan.	13,863	12,656	13,058
Bituminous Coal Production★ (tons)	Jan.	35,530	36,230	30,950
Boot and Shoe Production Prs.★	Jan.	34,500(pl)	29,988	26,523
Portland Cement Shipments★	Jan.	5,640	6,281	4,390
Commercial Failures (c)	Jan.	1,263	875	1,377

PRESENT POSITION AND OUTLOOK

A brief shut-down at the Plymouth plant, owing to a jurisdictional dispute among UAW workers, occasioned recently a rather sharp drop in assemblies; but trouble from this source is not expected to become extensive. The Supreme Court decision outlawing sit-in strikes should have a sobering effect upon the more hot-headed element of union labor. Consumer sales are holding up well, and major producers plan to turn out 10% to 25% more cars in March than in February.

* * *

Lumber production, for the first seven weeks of 1939, was 27% above the like period last year; but, probably due to the January war scare, shipments increased only 16% and new orders merely 7%. Recently, new orders have again risen above production and shipments. With retail inventories low and January sales running 9.5% above last year, **shoe** production in January increased 35% over the like month of 1938. Hide prices are rising.

* * *

Cigarette deliveries in January were 6.16% above last year, and the greatest for any like month on record. Cigars, Snuff and other manufactured tobacco also showed good gains over last year. Large manufacturers' inventories of leaf tobacco and removal of compulsory restrictions on this year's crop are likely to cause lower prices and reduce costs for manufacturers of cigarettes.

WEEKLY INDICATORS

	Date	Latest Week	Previous Week	Year Ago
M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100	Feb. 25	81.0	82.0	68.1
ELECTRIC POWER OUTPUT K. W. H.†	Feb. 25	2,226	2,249	2,031
CARLOADINGS				
Total	Feb. 25	560,609	580,071	511,939
Grain	Feb. 25	28,885	28,587	30,215
Coal	Feb. 25	131,646	129,424	101,613
Forest Products	Feb. 25	25,484	24,387	25,819
Manufacturing & Miscellaneous	Feb. 25	215,724	221,703	195,945
L. C. L. Mdse	Feb. 25	133,965	148,250	134,938
STEEL PRICES				
Pig Iron $ per ton (m)	Feb. 28	20.61	20.61	23.25
Scrap $ per ton (m)	Feb. 28	15.08	15.08	13.58
Finished c per lb. (m)	Feb. 28	2.286	2.286	2.512
STEEL OPERATIONS				
% of Capacity week ended (m)	Mar. 4	55.5	54.0	......
CAPITAL GOODS ACTIVITY (m) week ended	Feb. 25	75.1	76.7	56.0
PETROLEUM				
Average Daily Production bbls.★	Feb. 25	3,329	3,324	3,323
Crude Runs to Stills Avge. bbls.★	Feb. 25	3,185	3,125	3,149
Total Gasoline Stocks bbls.★	Feb. 25	84,597	83,075	91,594
Gas and Fuel Oil Stocks bbls.★	Feb. 25	133,671	135,096	121,123
Crude—Mid-Cont. $ per bbl	Mar. 4	1.02	1.02	1.27
Gasoline—Refinery $ per gal	Mar. 4	.05⅞	.05⅞	.06⅝

PRESENT POSITION AND OUTLOOK

Electric power output, at 10% above last year's level, continues to expand at a considerably better than normal seasonal rate, despite the temporary recession in manufacturing activity. With any pick-up in general business activity expansion will be accelerated. Combined with prospects for comparative relief from further Government harassment, the industry's outlook has become distinctly favorable.

* * *

Since our last issue, the **steel operating** rate has again turned upward at about the normal seasonal rate. Around 57% of capacity, the industry is operating at 90% above last year's rate and has been able to absorb the wage increases of 1936-7. While the benefit of these favorable developments has been partly absorbed by price shading which finds the average price level for finished steel about 7% below last year, consumer inventories are low and prices, particularly for scrap, are firming up; so that first quarter profits should be comparatively gratifying.

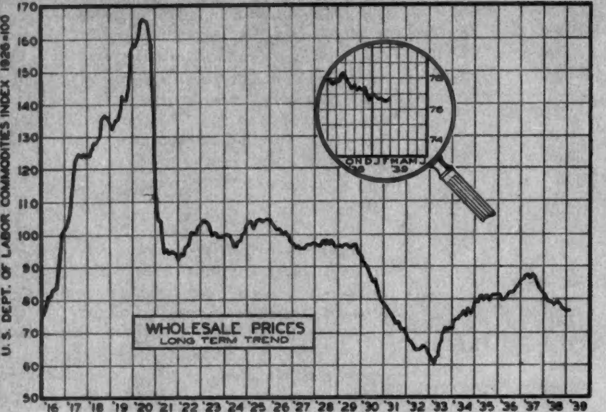
* * *

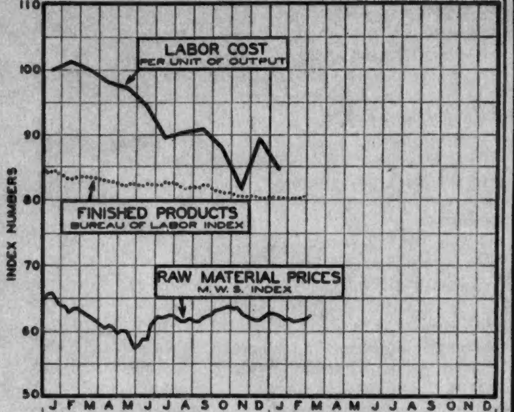
With **gasoline** inventories still excessive, tank wagon prices have sagged to 2.5% below a month ago and 7.7% below last year; so that the **oil** industry's first quarter earnings are likely to be comparatively poor.

†—Millions. ★—Thousands. (a)—Federal Reserve 1923-25—100. (b)—Federal Reserve Bank of N. Y. 100%—estimated long term trend. (c)—Dun & Bradstreets. (cm)—Dept. of Commerce estimates of income paid out. (d)—Nat. Ind. Conf. Bd. 1923—100. (e)—Dept. of Agric., 1924-29—100. (ee)—Dept. of Agric., 1909-14—100. (f)—1923-25—100. (g)—Chain Store Age 1929-31—100. (h)—U.S.B.L.S. 1926—100. (j)—Adjusted—1929-31—100. (k)—F. W. Dodge Corp. (m)—Iron Age. (n)—1926—100. (pl)—Preliminary. (s)—Fairchild Index, Dec., 1930—100. (En)—Engineering News Record. (Ry)—Railway Age.

Trend of Commodities

Commodity markets over the past fortnight have been featured by marked strength in a number of individual commodities such as raw silk and hogs, the former reaching a two-year high and the latter selling at the best prices in five months. Firmer prices were noted in principal farm commodities—wheat, corn and cotton. These special situations, however, had only a slight impact on commodity prices as a whole, measured by representative indexes, which continued to move within an extremely narrow range. The recent upturn in commercial borrowings suggests the possibility that more active inventory stocking is under way. Yet it would still be possible to have a considerable measure of business recovery over the ensuing months without necessarily impelling large scale purchases of raw materials. For the most part supplies are more than adequate to take care of any needs which can be envisaged at this time.





Changes in Major Commodity Price Groups for the Fortnight Ended February 25, 1939

Farm Products	67.7	up 1.0	Metals	94.5	no change
Foods	71.4	up 0.3	Building Material	90.0	up 0.9
Hides and Leather	92.4	down 0.3	Chemical	76.0	down 0.1
Textiles	65.6	no change	Housefurnishings	86.6	down 0.1
Fuel and Lighting	73.4	down 0.3	Miscellaneous	73.0	up 0.2

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COTTON				
Price cents per pound, closing				
March	Mar. 4	8.71	8.55	9.05
May	Mar. 4	8.34	8.17	9.06
Spot	Mar. 4	9.12	8.98	9.12
(In bales 000's)				
Visible Supply, World	Mar. 3	8,860	8,969	9,177
Takings, World, wk. end	Mar 3	356	386	377
Total Takings, season Aug. 1 to	Mar. 3	11,040	10,683	11,491
Consumption, U. S.	Jan.	592	565	433
Exports, wk. end	Mar. 3	97	54	73
Total Exports, season Aug. 1 to	Mar. 3	2,515	2,418	4,355
Government Crop Est. (final)	1938	12,008	......	18,946
Active Spindles (000's)	Jan.	22,440	22,445	22,325
WHEAT				
Price cents per bu. Chi. closing				
May	Mar. 4	68⅞	68⅜	90⅜
July	Mar. 4	469	68½	85⅛
Exports bu. (000's) since July 1 to	Feb. 25	100,529	98,600	92,215
Exports bu. (000's) wk. end	Feb. 25	1,929	1,690	2,557
Visible Supply bu. (000's) as of	Feb. 25	89,125	92,582	60,316
Gov't Crop Est. bu. (000's) (final)	1938	930,801	......	873,993
CORN				
Price cents per bu. Chi. closing				
May	Mar. 4	49	49¼	58⅞
July	Mar. 4	50½	50½	60⅜
Exports bu. (000's) since July 1 to	Feb. 25	61,373	61,083	33,240
Visible Supply bu. (000's) as of	Feb. 25	46,605	47,018	37,126
Gov't Crop Est. bu. (000's) (final)	1938	2,480,958	......	2,644,995

PRESENT POSITION AND OUTLOOK

Cotton. A tight supply situation has arisen in the cotton market. There is ample cotton, but it is pledged against Government loans. Meanwhile cotton goods sales have recently responded briskly to the seasonal impetus, augmented by heavy Government purchases for relief purposes. Exports are lower than at any time since the beginning of the present century, a condition dramatized by the recent plea of the Lancashire spinning industry to Secretary Wallace to release cotton. The better grades used in England, however, are pledged and can only be released by Congressional legislation.

* * *

Wheat. Contributing further to the pessimistic outlook for wheat have been the recent reports of improved growing conditions in the winter wheat belt. There appears to be little or no chance that the surplus problem will be appreciably mitigated in the near future. Sales for export this season have totaled nearly 87,000,000 bushels. Actual exports thus far are valued at about $40,000,000, on which the subsidy has amounted to $16,500,000.

* * *

Corn. Export prospects have brightened. Floating supplies are being reduced and some time must yet elapse before Argentina will be a factor in the foreign markets. Meanwhile, prices are likely to hold within a narrow range.

	Date	Latest Wk. or Mo.	Previous Wk. or Mo.	Year Ago
COPPER				
Price cents per lb.				
Domestic	Mar. 4	11.25	11.25	10.00
Export c. i. f.	Mar. 4	10,125	9.95-10.0	10.00
Refined Prod., Domestic (tons)	Jan.	66,182	67,947	70,487
Refined Del., Domestic (tons)	Jan.	51,059	38,853	24,881
Refined Stocks, Domestic (tons)	Jan. 31	301,110	289,755	299,133
Refined Prod., World (tons)	Jan	173,480	186,384	174,302
Refined Del., World (tons)	Jan.	150,589	153,753	139,528
Refined Stocks, World (tons)	Jan. 31	480,059	457,168	505,969
TIN				
Price cents per lb., N. Y.	Mar. 4	46.05	45.55	41.87
Tin Plate, price $ per box	Mar. 4	5.00	5.00	5.35
World Visible Supply† as of	Feb. 28	35,245	34,240	25,261
U. S. Deliveries†	Feb.	4,105	4,330	4,420
U. S. Visible Supply† as of	Feb. 28	5,486	4,624	5,116
LEAD				
Price cents per lb., N. Y.	Mar. 4	4.75	4.75	4.50
U. S. Production (tons)	Jan.	41,507	34,683	39,196
U. S. Shipments (tons)	Jan.	40,189	33,908	34,923
Stocks (tons) U. S., as of	Jan. 31	117,214	115,902	133,401
ZINC				
Price cents per lb., St. Louis	Mar. 4	4.50	4.50	4.75
U. S. Production (tons)	Jan.	44,142	44,878	48,687
U. S. Shipments (tons)	Jan.	42,526	39,052	24,931
Stocks (tons) U. S., as of	Jan. 31	128,220	126,604	89,089
SILK				
Price $ per lb. Japan xx crack	Mar. 4	2.27	2.16	1.67½
Mill Dels. U. S. (bales), season to	Jan. 31	263,191	222,375	221,776
Visible Stocks N. Y. (bales) as of	Jan. 31	48,554	53,278	48,678
RAYON (Yarn)				
Price cents per lb. Visc. 150	Mar. 4	5.10	51.0	54.0
Consumption (a)	Jan.	27.1	26.2	13.7
Stocks (a) as of	Jan. 31	39.7	39.5	59.9
WOOL				
Price cents per lb. tops, N. Y.	Mar. 4	86½	86½	83½
HIDES				
Price cents per lb. No. 1 Packer	Mar. 4	10.50	10.0	8.50
Visible Stocks (000's) (b) as of	Dec. 31	14,023	13,885	15,373
No. of Mos. Supply as of	Dec. 31	9.4	8.5	12.2
RUBBER				
Price cents per lb.	Mar. 4	16.78	16.45	14.40
Imports, U. S.†	Jan.	39,082	36,977	42,135
Consumption, U. S.†	Jan.	46,234	45,315	29,429
Stocks U. S. as of	Jan. 31	237,826	245,413	274,581
Tire Production (000's)	Dec.	4,679	4,117	2,852
Tire Shipments (000's)	Dec.	4,171	4,442	3,044
Tire Inventory (000's) as of	Dec. 31	8,498	7,924	10,383
COCOA				
Price cents per lb. May	Mar. 4	4.63	4.64	5.67
Arrivals (thousand bags)	Feb.	633	253	266
Warehouse Stocks (thousand lbs)	Mar. 3	1,036	1,028	226
COFFEE				
Price cents per lb. (c.)	Mar. 4	7½-7⅞	.07½-8	7.34
Imports (bags 000's) season to	Feb. 1	8,103	......	6,334
U. S. Visible Supply (bags 000's)	Feb. 1	1,454	1,558	1,319
SUGAR				
Price cents per lb.				
Duty free delivered	Mar. 4	2.80	2.78	3.10
Refined (Immediate Shipment)	Mar. 4	4.30-4.40	4.20	4.65
U. S. Deliveries (000's)*	Jan.	334(pl)	627	362
Refiners Stocks (000's)* as of	Jan. 31	610(pl)	492	514

PRESENT POSITION AND OUTLOOK

Copper. Trade sentiment in the domestic markets has improved, a change, however, which apparently is not shared abroad. Foreign markets have blown hot and cold and disappointment over the failure of the foreign cartel to effect a larger reduction in quotas has been evident. Domestic sales in February totaled 19,844 tons, compared with 15,507 tons in January.

* * *

Tin. Visible supplies again increased last month, the increase of 1,005 tons comparing with the increase of 3,686 in January. Notwithstanding the unfavorable implications of this trend prices have held fairly firm, the markets apparently convinced that the International Tin Committee would take prompt action to forestall a break in prices.

* * *

Lead. Refined stocks increased moderately in January, the net gain of 1,312 tons reflecting an unexpected increase in production. Shipments increased 6,281 tons. Buying has been in good volume since the recent reduction in prices.

* * *

Zinc. Consumption has been listless. Producers, however, are understood to have gotten costs under control to the point where profits can be shown at present low prices.

* * *

Silk. Silk has featured domestic commodity markets by recording spectacular price gains. Further increases, however, will threaten the competitive position of silk. This possibility doubtless inspired the action of Japan in placing a maximum price on speculative trading. A tight supply situation accounts for the substantial upturn.

* * *

Rayon. Large unfilled orders have sustained deliveries and production at a high rate. Inventories in the hand of dealers and wholesalers are still sub-normal.

* * *

Wool. Mill activity continues at a high rate. Retailers are watching demand closely and are prepared to place sizable orders with any evidence of expanding public purchasing power.

* * *

Hides. Market sentiment is bullish. Indicated supplies may fall 3,000,000 hides under estimated requirements of the shoe industry. This means increased imports or a further reduction in stocks. Prices should move higher.

* * *

Rubber. January tire statistics have been delayed. It is expected that they will reveal a continuation of the recent favorable trend in both new car and replacement sales. With second quarter, quotas unchanged at 50 per cent, any expansion over estimated consumption of crude rubber would doubtless mean higher prices.

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Sugar. Refined prices have been raised ten points. Reports are current that Washington authorities will take early action on reduction of Cuban sugar duties and revision of 1939 import quotas.

* * *

Coffee. Brazilian coffee states have agreed to continue the supply control and stabilization scheme until June, 1941—at least. This is important in the face of estimates indicating a current crop of nearly 6,000,000 bags in excess of requirements.

(a)—Million Pounds. (pl)—Preliminary. (c)—Santos No. 4 N. Y. †—Long tons. *—Short tons.

Money and Banking

	Date	Latest Week	Previous Week	Year Ago
INTEREST RATES				
Time Money (60-90 days)	Mar. 4	1¼%	1¼%	1¼%
Prime Commercial Paper	Mar. 4	⅝-1%	⅝-1%	1%
Call Money	Mar. 4	1%	1%	1%
Re-discount Rate, N. Y.	Mar. 4	1%	1%	1%
CREDIT (millions of $)				
Bank Clearings (outside N. Y.)	Feb. 18	2,289	2,184	2,482
Cumulative year's total to	Feb. 18	16,538	....	16,315
Bank Clearings, N. Y.	Feb. 18	3,146	3,200	3,198
Cumulative year's total to	Feb. 18	24,174	......	23,151
F. R. Member Banks				
Loans and Investments	Feb. 21	21,606	21,608	21,167
Commercial, Agr., Ind. Loans	Feb. 21	3,766	3,761	4,378
Brokers Loans	Feb. 21	790	813	731
Invest. in U. S. Govts	Feb. 21	8,184	8,182	8,147
Invest. in Govt. Gtd. Securities	Feb. 21	1,993	1,975	1,150
Other Securities	Feb. 21	3,249	3,246	2,974
Demand Deposits	Feb. 21	16,094	15,951	14,576
Time Deposits	Feb. 21	5,189	5,181	5,129
New York City Member Banks				
Total Loans and Invest.	Mar. 1	7,755	7,733	7,833
Comm'l Ind. and Agr. Loans	Mar. 1	1,363	1,361	1,690
Brokers Loans	Mar. 1	647	640	608
Invest. U. S. Govts	Mar. 1	2,613	2,629	3,071
Invest. in Gov't Gtd. Securities	Mar. 1	1,063	1,044	420
Other Securities	Mar. 1	1,180	1,165	1,061
Demand Deposits	Mar. 1	6,843	6,903	5,822
Time Deposits	Mar. 1	626	625	670
Federal Reserve Banks				
Member Bank Reserve Balance	Mar. 1	8,942	8,841	7,215
Money in Circulation	Mar. 1	6,739	6,708	6,343
Gold Stock	Mar. 1	14,888	14,818	12,767
Treasury Currency	Mar. 1	2,827	2,821	2,069
Treasury Cash	Mar. 1	2,716	2,752	3,579
Excess Reserves	Mar. 1	3,380	3,300	1,390

		Latest Month	Last Month	Year Ago
NEW FINANCING (millions of $)				
Corporate	Jan.	$15,563	$243,693	$50,506
New Capital	Jan.	5,427	47,181	43,365
Refunding	Jan.	10,136	196,511	4,141

COMMENT

Loans and investments of **New York City Member Banks** reached a new high for the year in the week ended March 1. Loans to commerce and industry have risen in four out of the past five weeks, the gain in the most recent week amounting to $2,000,000. The rise in commercial borrowings at this season of the year doubtless anticipates a rising tempo of industrial activity. The upturn in loans, to be sure, has not been very large, but such as it is it would seem to support the assumption that inventories are being replenished on a modest scale. For the first time holdings of direct Government bonds were broken down into several classifications, and will be so reported from now on. In the latest week New York City banks sold $18,000,000 of Treasury bills and $25,000,000 notes, purchasing, for their larger yield, $27,000,000 Treasury bonds. Holdings of Government guaranteed issues increased $19,000,000 and other securities were up $15,000,000. Excess reserves of **all Member Banks,** in the latest week, rose $80,000,000 to $3,380,000,000. The latter figure compares with the record high of $3,600,000,000 on January 25, last. The gold stock increased $70,000,000 to $14,888,000,000, the sharpest gain since Dec. 21, 1938. Currency circulation was up $31,000,000, comparing with a rise of $19,000,000 a year ago and $35,000,000 two years ago. Total currency circulation is now $396,000,000 above a year ago.

* * *

Although new financing in February was larger than in the preceding month and in February a year ago, the gain reflects the extremely small volume in the two latter periods rather than any significant gain in the most recent month. March is not likely to bring any considerable change for the better, but scattered reports of financing plans hold out hope for a more marked revival in April.

POSITION OF FOREIGN BANKS

	Mar. 1, 1939	Mar. 2, 1938
BANK OF ENGLAND (000's)		
Circulation	£478,449	£478,344
Public Deposits	11,643	11,426
Private Deposits	146,911	151,734
Bankers Accounts	110,361	115,711
Other Accounts	36,550	36,023
Government Securities	99,046	104,446
Other Securities	28,747	28,119
Discount and Advances	6,349	7,076
Securities	22,398	21,043
Reserves	48,967	48,828
Coin and Bullion	227,416	327,172
BANK OF FRANCE (000,000's)	Feb. 24, 1939	Feb. 25, 1938
Gold Holdings	Fr.87,265	Fr.55,806
Credit Balances Abroad	739	35
Bills on France	5,461	11,179
Wheat Office Bills	2,013	....
Advance Against Securities	3,316	3,651
Note Circulation	111,161	92,740
Credit Current Accounts	27,634	22,373
Temp. Advs. to State	20,627	31,903
Gold on Hand to Sight Liabilities	62.87%	48.48%

COMMENT

Despite the optimism reflected in the London stock market, actual business revivial in Great Britain remains more of a promise than an actuality. In a large measure the rise in stock prices appears to have been inspired by negative factors—business has gotten no worse and there have been no serious war scares over the past fortnight. However, the longer range prospect is brightened by Britain's huge rearmament program, the impact of which should be felt in many industrial lines, and the possibility of rising exports in response to better business conditions abroad.

* * *

Business conditions in France have shown encouraging response to the efforts of the Daladier government to strengthen the French internal economy. In the most recent week, for instance, carloadings totaled 309,982 compared with 288,502 a year ago. The latest of the government decrees were directed toward the stimulation of building activity and provide important tax relief on new construction.

POSITION OF FOREIGN BANKS—Continued

GERMAN REICHSBANK (000's)	Feb. 28, 1939	Feb. 28, 1938
Gold and Bullion	Rm70,772	70,771
Of Which Deposits Abroad	10,572	20,333
Reserve in Foreign Currency	5,500	5,225
Bills of Exchange & Checks	7,361,400	5,658,191
Investments	958,100	396,454
Other Assets	1,532,756	800,897
Notes in Circulation	7,938,800	5,728,303
Other Daily Matured Obligations	447,840	353,170
Other Liabilities	....	....
Proportion of Gold & Foreign Currency to Note Circulation	0.96%	1.43%

Industrial activity in Germany is virtually at capacity limits, under the stimulus of an endless flow of government orders. The main problem, however, is the difficulty of obtaining skilled labor and adequate materials. Schacht, according to late reports, is preparing to head a trade mission seeking to enlarge Germany's foreign trade, presumably via the barter system. Some countries, however, which have been induced to try the barter system have since found the advantages were largely with Germany.

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BANK OF CANADA (000's)	Feb. 28, 1939	Feb. 28, 1938
Reserve Gold, Coin & Bullion	$200,175	$180,144
Silver Bullion	....	2,993
Reserve in Sterl. & U. S. Dollars	29,668	19,079
Subsidiary Coin	338	190
Dom. & Prov. Gov't Short Term Securities	128,475	68,783
Other Dom. & Prov. Securities	33,821	86,497
Other Securities	6,683	3,948
Note Circulation	158,488	149,108
Deposits—Dom. Gov't	19,845	20,572
Chartered Banks	210,536	188,750
Res. to Note & Dep. Liabilities	58.64	55.84

Business in Canada is holding on an even keel. Exports registered a fairly substantial gain in January. Armament orders are sustaining activity in a number of manufacturing industries, although automobile and allied industries have slowed up somewhat. Mining is active and the same holds true of most divisions of the textile industry.

FOREIGN EXCHANGE IN DOLLAR TERMS

Quotations in cents and decimals of a cent except pound sterling which is in dollars and cents.	Demand		Cables	
Country and Par	Mar. 3	Year Ago	Mar. 3	Year Ago
Great Britain ($8.2397 a sov.)	4.68⅞	5.01¼	4.68⅞	5.01¼
Belgium (16.9502c a belga)	16.83	16.95¾	16.83	16.95¾
Czecho-Slovakia (3.51c a crown)	3.42⅞	3.51¾	3.42⅞	3.51¾
Denmark (45.374c a krone)	20.93	22.38	20.93	22.38
Finland (4.264c a finmark)	2.07	2.21½	2.07	2.21½
France (par not definite)	2.65	3.25⅝	2.65	3.25⅝
Germany (40.33c a mark)**	40.13	40.45	40.13	40.45
Germany (benevolent mark)	22.45	.....	22.45	.....
Germany (travel mark)	22.40	24.85	22.40	24.85
Germany (handels sperrmark)	4.45	.....	4.45	.....
Greece (2.197c a drachma)	0.86⅛	0.92	0.86¼	0.92⅛
Holland (par not definite)	53.11½	55.91	53.11½	55.91
Hungary (29.613c a pengo) ¶	19.70	19.92	19.70	19.92
Italy (5.2634c a lira)§	5.26¼	5.26½	5.26¼	5.26½
Norway (45.374c a krone)	23.56	25.19	23.56	25.19
Poland (18.994c a zloty)	18.93	19.00	18.93	19.00
Rumania (0.012c a leu)	0.75	0.75	0.75	0.75
Sweden (45.374c a krona)	24.13½	25.81½	24.13½	25.81½
Switzerland (par not definite)	22.73	23.20½	22.73	23.20½
Jugoslavia (2.981c a dinar)	2.30	2.36½	2.30	2.36½
Shanghai dollars (unsettled)	15.93¾	29.75	15.93¾	29.75
Hongkong dollars (unsettled)	29.15	31.43¾	29.15	31.43¾
India (61.798c a rupee)	35.08	37.87	35.08	37.87
Japan (84.39c a yen)	27.34	29.01	27.34	29.01
Sts. Settlements (96.139c a dollar)	54.55	58.80	54.55	58.80
Argentina (71.87c a paper peso) ¶	23.10	26.30	23.10	26.30
Argentina (71.87c a paper peso)**	31.26	33.43	31.26	33.43
Brazil (20.25c a paper milreis)**	5.90	5.95	5.90	5.95
Chile (20.599c a gold peso)†	5.19	5.19	5.19	5.19
Colombia ($1.645 a gold peso)**	56.98	54.65	56.98	54.65
Mexico, peso (unsettled)	20.30	27.80	20.30	27.80
Peru (47.409c a sol)†	20.37½	24.50	20.37½	24.50
Uruguay ($1.75 a gold peso) ¶	37.50	46.00	37.50	46.00
Uruguay ($1.75 a gold peso)	61.70	65.98	61.70	65.98
Venezuela (32.67c a bolivar) ¶	31.63	30.62½	31.63	30.62½
Venezuela (32.67c a bolivar)**	31.63	31.62½	31.63	31.62½

†—Nominal quotations. ¶—Free rate. **—Official rate. §—Travel lira, 4.75c.

COMMENT

Both the pound and the franc have presented sharp contrasts to their action over the past few months, having settled down into a state of quiet strength. Repatriation of French capital has continued at a slower pace, but financial nerves there have been greatly reassured on the fiscal, political and military outlook. In London it has been demonstrated that the reinforced Equalization Account is fully capable of preventing erratic fluctuations in the exchange market under reasonably normal conditions. Whether this can be taken as a guaranty of a stable pound over the near future regardless of the course of events is a matter of opinion.

* * *

Sinking spells of rather short duration affected both the guilder and the belga, dragging the former down to a new low since Holland abandoned the gold standard. Although contributing causes could be observed, the chief reason for weakness in the two currencies was the fear that some threatening move toward either country might come from the direction of Germany. The flight of capital has, however, been at least temporarily ended.

* * *

Statements by the Secretary of the Treasury, along with an official report on the status and operations of our own Stabilization Fund, make somewhat clearer the uses to which the profit on gold revaluation has been put. Controversy over whether or not such a sum is needed to maintain the equilibrium of the dollar can be expected to continue; but the country is assured that the Fund has not been used to rig the treasury bond market or to evade the Johnson Act by financing arms exports.

Security Statistics

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

1938 Indexes High	1938 Indexes Low	No. of Issues	(1925 Close—100)	1939 Indexes High	1939 Indexes Low	Feb. 18	Feb. 25	Mar. 4
77.8	44.2	316	COMBINED AVERAGE	73.1	62.9	67.3	68.9	70.3
133.9	88.5	5	Agricultural Implements..	119.1	101.0	110.3	110.7	119.1
47.9	24.7	6	Amusements..........	43.2	35.8	37.9	39.3	38.9
92.3	43.1	15	Automobile Accessories.	92.3	75.2	83.7	83.8	85.7
14.8	7.0	12	Automobiles..........	12.8	10.7	11.8	12.0	12.4
182.7	75.2	11	Aviation (1927 Cl.—100)	182.7	150.4	172.7	171.0	168.0
16.1	8.9	3	Baking (1926 Cl.—100)..	15.0	11.7	14.0	14.0	15.0
203.3	120.2	3	Business Machines.......	183.9	158.5	166.5	167.6	171.8
177.5	111.6	9	Chemicals.............	168.2	152.2	158.5	159.6	160.8
50.2	25.6	20	Construction...........	47.5	38.3	40.8	41.5	42.9
246.2	173.8	5	Containers............	242.6	205.8	211.1	213.0	218.8
129.6	60.0	9	Copper & Brass.........	118.6	94.2	101.4	105.3	106.7
28.0	21.8	2	Dairy Products..........	29.1	23.6	27.2	28.0	29.1h
27.4	12.2	8	Department Stores.......	23.6	20.1	23.2	23.6	23.3
65.5	40.1	7	Drugs & Toilet Articles...	52.2	42.3	48.6	50.1	52.2
329.0	158.1	2	Finance Companies......	312.6	264.8	291.2	300.8	312.6
81.1	33.3	7	Food Brands...........	84.6	77.4	83.2	82.9	84.6H
35.3	20.5	3	Food Stores...........	41.9	34.4	41.9h	41.3	40.9
72.1	36.9	4	Furniture & Floor Covering	72.1	60.0	66.8	68.7	70.2
1262.1	953.7	3	Gold Mining...........	1301.2	1204.3	1239.6	1260.1	1301.2h
32.1	21.1	6	Investment Trusts........	28.1	24.0	25.1	25.7	25.8
223.7	140.7	4	Liquor (1932 Cl.—100)..	193.1	163.5	174.9	184.0	186.5
138.0	77.6	9	Machinery............	129.0	108.1	115.5	118.8	123.5
85.8	49.1	2	Mail Order............	84.7	76.0	82.5	84.3	84.7
56.5	36.5	4	Meat Packing..........	51.2	43.3	44.4	45.1	51.2
195.9	116.0	14	Metals, non-Ferrous.....	173.6	148.3	151.0	154.1	156.3
14.0	5.8	2	Paper................	13.5	11.5	11.5	11.8	11.7
113.0	76.2	24	Petroleum.............	100.9	89.6	92.2	92.9	94.5
65.6	38.8	18	Public Utilities..........	62.6	55.4	60.6	62.6	62.6
18.9	10.3	4	Radio (1927 Cl.—100)..	16.8	13.4	15.0	16.2	16.8
61.6	28.2	9	Railroad Equipment.....	61.6	48.0	52.5	54.2	55.8
18.6	10.6	22	Railroads.............	18.1	14.8	15.2	16.2	16.8
9.5	4.7	2	Realty...............	7.9	6.1	6.6	6.6	6.8
82.7	36.1	2	Shipbuilding..........	82.7	62.2	70.1	68.8	70.9
106.5	55.2	13	Steel & Iron...........	99.0	79.5	87.8	89.4	91.5
25.7	17.4	2	Sugar...............	20.1	16.8	17.7	18.4	17.7
169.1	118.6	2	Sulphur..............	153.2	130.3	134.0	132.1	130.3
60.0	37.6	3	Telephone & Telegraph..	51.8	46.4	49.1	50.2	51.8
49.7	27.9	4	Textiles..............	44.8	37.6	40.3	42.1	42.2
20.6	10.0	4	Tires & Rubber.........	20.0	16.1	18.1	18.4	19.1
86.1	63.8	4	Tobacco..............	85.9	82.4	85.6	85.8	85.8
39.8	15.6	4	Traction..............	36.9	30.8	35.6	36.9	35.7
243.3	146.0	4	Variety Stores..........	231.3	204.0	225.7	229.3	231.3
.....	.....	20	Unclassified (1938 Cl.—100)..............	100.8	89.7	96.9	94.8	98.7

H—New HIGH record since 1931. h—New HIGH since 1937.

DAILY INDEX OF SECURITIES

	N.Y. Times 40 Bonds	Dow-Jones Avgs. 30 Indus.	Dow-Jones Avgs. 20 Rails	N. Y. Times —50 Stocks— High	N. Y. Times —50 Stocks— Low	Sales
Monday, Feb. 20......	72.19	142.74	29.55	101.28	99.82	692,840
Tuesday, Feb. 21.......	72.16	142.64	29.61	100.23	99.52	465,380
Wednesday, Feb. 22....	Holiday					
Thursday, Feb. 23......	72.32	142.93	29.83	100.63	99.87	455,320
Friday, Feb. 24.........	72.64	145.44	30.90	102.20	100.66	967,390
Saturday, Feb. 25......	72.83	146.82	31.25	103.23	102.57	783,600
Monday, Feb. 27......	73.02	146.62	31.61	103.34	102.35	745,425
Tuesday, Feb. 28.......	73.46	147.30	32.48	104.12	102.94	1,060,770
Wednesday, Mar. 1.....	73.57	147.15	32.45	103.87	103.19	634,604
Thursday, Mar. 2.......	73.66	146.96	32.47	103.57	102.78	599,215
Friday, Mar. 3.........	73.99	148.75	33.00	104.83	103.72	1,016,765
Saturday, Mar. 4.......	74.00	149.49	32.98	105.27	104.52	584,560

STOCK MARKET VOLUME

Week Ended Mar. 4	Week Ended Feb. 25	Week Ended Feb. 18
4,461,339	3,364,530	2,859,750
Total Transactions Year to Mar. 4	Same Date 1938	Same Date 1937
41,897,737	40,788,100	717,346,200

COMMENTS

Helped by a belief that the mild business recession has about run its course, and encouraged by the improved political outlook at home and abroad, the stock market has advanced leisurely for the third consecutive week up to a fraction higher than its level of Jan. 14. Volume has expanded with rising prices, and securities of investment rating have displayed greater strength than more speculative issues. The M. W. S. Bond Index has reached the best level since Feb. 26, 1938; while high grade Utility bonds have established an all-time record high.

* * *

During the fortnight ended Mar. 4, sixteen of the 42 industrial sub-groups into which our weekly Index of 316 active common stocks is broken down displayed long range technical strength by advancing to bench marks ante-dating that reached by the Combined Average. In order of descending strength, the Food Brands group reached the best level since June 7, 1930, under the leadership of California Packing; Gold Mining, lead by McIntyre Porcupine, rose to the highest level since Aug. 25, 1932; Dairy Products reached the best level since Oct. 30, 1937; Baking (led by Purity Bakeries) advanced to the highest level since Aug. 6, 1938; Agricultural Implements (led by Deere), Mail Order, Meat Packing (led by Gobel), Public Utilities (led by Engineers Public Service), Telephone & Telegraph (led by Western Union), and Variety Stores (led by McCrory) made the best level since Nov. 12; Radio reached the highest level since Nov. 19, under the leadership of Electrical & Musical Industries; Department Stores, during the week ended Feb. 25, reached the best level since Nov. 26, led by Gimbel Bros., but uncovered short term technical weakness by losing practically all of the week's advance during the subsequent week ended Mar. 4; Drugs & Toilet Articles (led by United Drug) and the New York City Tractions (during week ended Feb. 25) reached the highest level since Dec. 3, though the Traction group subsequently developed short-term technical weakness by losing practically all of its week's gain during the week ended Mar. 4; Finance Cos. (led by Commercial Investment Trust) rose to the best level since Dec. 24; and Liquor stocks (led by Schenley) reached the highest level since Dec. 31.

* * *

Meat Packing, Radio, and the Rails (led by Southern Ry.) displayed short-term strength by advancing at least twice as fast as the Combined Average during week ended Mar. 4. The Sulphur group continued to show long-term technical weakness by sagging to the lowest level since April 2, 1938. Food Stores, and the Sugar group uncovered short-term weakness.

Answers to Inquiries

(*Continued from page 628*)

ing capacity, bars for about 15%, and tin plate approximately 5%. Principal consumers of pipe are the oil, gas and building trades, while customers for other products include the automobile, railroad equipment, container and miscellaneous metal fabricators. In line with the general let-down in activity throughout the industry in the first three quarters of 1938, earnings suffered rather severely, a deficit of 82 cents a common share being registered as against net income equal to $5.90 per share for the corresponding period of 1937. However, a sharp improvement took place in the last quarter as shown in the preliminary income account for the full year 1938 which shows a deficit of only 89 cents per common share for the full year. Per common share results for all of 1937 equalled $6.79. The recent issuance of $30,000,000 of 4% convertible debentures will, of course, have the effect of increasing fixed charges, but new fixed charges will not be as large as might seem at first glance since $12,500,000 of the new funds was used to pay off bank loans on which interest charges will no longer be necessary. Eventual conversion of the bonds may dilute earnings for a time but when the benefits of the new capital expenditures begin to be realized, increased earnings should be available for the common. Current operations of the company are believed to be on a profitable basis and it is expected that at least a small margin of profit will be shown for the common shares in the first quarter. As far as benefits from armament expenditures are concerned, the company is likely to participate only indirectly in these since it does not specialize in any particular branch of this field. The common stock, although junior to a large amount of preferred stock and funded debt, occupies a strong leverage position which should give a considerable impetus to per share earnings during periods of high activity. Finances continue sound and common dividends are liberal during periods of profitable operations but conservatism will probably preclude payments in the near future. As a long range holding, however, the potential possibilities of the stock are excellent and we feel that for one willing to exercise patience, substantial profits will accrue.

American Cyanamid Co.

Do your security analysts counsel retention of American Cyanamid "B" as a promising commitment for near term price enhancement? My shares cost 36⅝. I note that the company's expansion program is continuing and that increased orders are coming in from the automobile, paper and textile industries. —L. F., Los Angeles, Calif.

As a reflection of less favorable conditions existing throughout the industry in 1938, operating profit of American Cyanamid Co. declined about 33% in the nine months to September 30. Net results, however, were also affected by higher charges for depreciation and depletion and greater development expense. Net income for the initial nine months was equal to 53 cents per share of combined class A and B common, as against $1.68 for the corresponding period of 1937. Earlier estimates of full year earnings have recently been revised downward due to the failure of the jointly controlled Southern Alkali Co. to declare dividends out of 1938 earnings in its desire to retain funds for expansion purposes. As a result, earnings of American Cyanamid for the full year are now expected to be between 75 cents and 80 cents on the combined class A and B shares. Improved operations in consuming outlets, particularly in the automobile, textile and paper industries, have expanded sales in the current quarter and these in turn should be reflected in higher earnings for the period. The shift of emphasis in recent years from fertilizer to chemical lines, such as heavy chemicals, pharmaceuticals, dyestuffs, intermediates and mining chemicals, has basically improved the company's operating outlook. As contrasted with the fertilizer industry, the company's newer lines of endeavor are relatively free from unsound competitive practices and currently offer better sales possibilities. The process of consolidating operations of the various acquired units, however, probably will require some further time for completion and it is a fair assumption that the company has not yet attained its most efficient operating status. The financial requirements of expansion have been supplied in part from earnings, but mostly by selling bonds or through bank loans. Cash dividends, therefore, have been rather conservative and are likely to remain so for some time. It is possible, however, that the company may revert to the 1937 policy of paying part of the dividend in $10 par 5% convertible preferred stock. The class A and class B common shares rank equally except for the fact that the class A has sole voting power. Preceding these issues in the capital structure are funded debt of $13,000,000 and 170,453 shares of preferred. The class B is more active marketwise, since it is outstanding in a larger amount. The B stock is not cheap in relation to current earnings, but the potential earning power of the company gives the issue attractive long term appreciation possibilities.

National Tea Company

What are the possibilities that National Tea will recover to my purchase price of 11½? I hold 200 shares. I have been told that this company will quickly reflect improved economic conditions and the better political outlook for chain stores. Will your security analysts appraise the prospects for this stock?—R. B., New York, N. Y.

National Tea Company operates a chain of 1,103 retail food stores, of which more than one-third are combination markets, with 50% of the outlets concentrated in the Chicago area and the remainder primarily in the north-central States. For the year ended December 31, 1938, operations resulted in a deficit equal to $1.69 per common share, as against net loss equivalent to $2.30 per common share for the previous year. These unsatisfactory earnings continued the poor showing since 1934, reflecting inability to pass higher wholesale food prices on to consumers in the face of severe competition. This condition has been accentuated in recent years by the imposition of chain store taxes in some of the States served, by enforced wage increases following labor troubles and by rapid development of competitive super markets. Some encouragement for improved earnings in 1939 may result from improved general business conditions and the policy of the company of closing less profitable stores. However, intense competition, narrow

profit margins and the difficulty of reducing costs all point to the likelihood of unsatisfactory operations for some time to come. The financial position of the company, as shown by the 1937 year-end balance sheet, was not impressive. Current notes payable amounted to $1,430,000 as against cash of $1,273,686. The common stock, ranking junior to 147,880 shares of $10 par preferred and non-current notes payable, is distinctly speculative near term holding. However, the current price of the shares appears to have discounted the unfavorable features to a large extent and on a price basis it would seem logical to maintain commitments, at least temporarily.

A Leader in a Favored Industry
Niles-Bement-Pond

(*Continued from page* 613)

to make up the increased volume, any such rise in orders would have direct and immediate effect upon the company's business. The capital structure is simple and small, consisting of 173,025 shares of common stock. There is no funded debt or preferred stock. The shares are listed on the New York Curb Exchange and are currently quoted around 61.

No balance sheet later than that of December 31, 1937, is available at the date of writing but a strong financial position is characteristic of the company.

Plans have recently been divulged to build a new factory on property already acquired in West Hartford, Conn., and this will presumably require additional funds from some source. Bank loans of the new term variety maturing over a period of years may be the method used, or it is possible that the directors may decide upon a small additional offering of common stock to holders.

In either case the 50-cent quarterly dividend rate now in effect will probably not be threatened by such financing. The company has always been generous in its treatment of stockholders, on several occasions having distributed stock in affiliated concerns directly to owners of Niles-Bement-Pond, in addition to moderate cash disbursements.

At its current price of 59 the stock is close to the high mark of 62 recorded in 1937 and the high of 61⅛ reached in 1938. Early this year, however, both these marks were slightly bettered when strength in the market permitted Niles-Bement-Pond to join the few issues making new highs since the depression with a price of 62⅞. The action of the stock indicates clearly that great things are expected of the company over the next prosperity cycle, and there appears to be a good likelihood that holders will not be disappointed. January orders are understood to have been around $900,000, well divided among all classes of customers. The backlog of unfilled orders rose during the month from $1,892,000 to $2,200,000. At mid-year they had amounted to $1,600,000 and at the end of 1937 to $2,900,000. A pace of $900,000 monthly in new orders throughout 1939 would produce a total for the year larger than the record of $10,749,000 set in 1937, and profit margins should be subject to no worse than temporary influences if sudden stepping up of operations should be found necessary.

In the final analysis, the main requirement for an excellent year for this company is a continuation of the trends already visible among its customers. The aviation industry, for instance, will hardly fail to rely more and more upon machines for increasing its output. Motor manufacturers are contemplating fairly extensive changes in their next models, but even without the changes will be large customers so long as their own sales hold up. Armament orders, domestic and for-

eign, will be a factor in the company's business for the next two years or longer. Most important, however, will be the psychological effect of the uptrend in general business, once confidence in its stamina becomes widespread and is followed by willingness to invest in new productive facilities.

Stocks embodying such attractive possibilities and yet selling at only a dozen times the earnings of last year—a poor year in almost all lines—are quite rare. Niles-Bement-Pond must be classed among the speculative issues, as must almost any stock with a very small capitalization, but its record, its current position, and its outlook for the immediate future combine to make it one of the more attractive speculations on further business recovery.

Finance Companies or Motors?

(Continued from page 617)

these years. All things considered, Commercial Credit has proven the most satisfactory income medium of the group though, where stability of return is a prime desideratum, Commercial Investment Trust appears to advantage. It is of interest to note, however, that in either case the holder of these shares would have done well to switch to Chrysler toward the latter stages of the cycle, thus obtaining increased yield as well as greater capital appreciation. Needless to say, the advantages so attained would have been much more than offset by later market developments unless our hypothetical investor were also sufficiently wise or fortunate to reverse the procedure or, better still, get out of the market altogether reasonably close to the cycle's peak.

In conclusion, it would appear from the record of the past five years that the remark quoted in our first paragraph might well be restated as follows:

For Appreciation: Chrysler.

For Yield: Commercial Credit.

For Income Stability: Commercial Investment Trust.

Not to leave General Motors completely out in the cold, we suggest the following category not included in the scope of this study nor, for that matter, generally associated with common stock ownership, to wit:

For Security of Principal: General Motors.

The Investment Clinic

(Continued from page 611)

cilities (approximate undepreciated cost—$120,000,000) and certain other properties, subject to underlying liens. As additional security there have been pledged $8,366,000 City of Seattle Municipal Street Railway 5% bonds which, however, are in default and are not likely to be settled at better than about 40 cents on the dollar.

Selling on the Curb around 82, the 4½'s are callable at 102. Sinking fund requirements call for retirement of 1¼% of the first mortgage and underlying bonds each year. The company pays normal income tax up to 2% and refunds Pennsylvania personal property tax up to 4 mills.

A subsidiary of Engineers Public Service which, however, is planning to dispose of its shareholdings pursuant to a plan of integration recently filed with the S E C, Puget Sound Power & Light furnishes electric service to a population of over three-quarters of a million people in the central and western parts of the state of Washington. Some 16% of revenues are also derived from transportation, gas, steam heat and other minor sources. Of gross earnings from the sale of electricity, about 31% is attributable to residential customers, 30% to commercial, 17% industrial and 22% farm and other. The company has street lighting contracts with about 120 communities and, with few exceptions, business in all cities, towns and rural areas in which it operates is conducted under franchises having, on the average, about 10 years to run.

For some years there has been agitation for acquisition by the city of Seattle of the company's electric and steam heat properties in the metropolitan area, but so far no agreement has been reached. Also, throughout other parts of the state,

there has been progress toward the formation of public power districts looking toward the purchase of private facilities serving the areas involved. Last November five counties served by Puget Sound Power & Light voted on this question and of the five, two approved the formation of such districts, the other three rejecting the proposal. At the present time the question of public utility districts, their financing and taxation is under consideration in the Washington state legislature and indications are that certain legal restrictions may be imposed. The threat of Government competition from the Bonneville and Grand Coulee dams has subsided considerably in recent months due to the publicly expressed intention of former project's administrator to avoid duplication of private facilities and also to the generally more conciliatory attitude of the Government toward the utility industry as a whole.

Fixed charges were covered 1.39 times in the twelve months ended November 30, 1938, as compared with 1.49 times for the preceding twelve months. Average coverage for the nine-year period 1929-37 was 1.54 times, with a high of 1.95 in 1930 and a low of 1.19 in 1934. Treasury position on September 30, 1938, was satisfactory, $7,953,000 of current assets, including $3,642,000 in cash, comparing with $2,634,000 of current liabilities.

As the Trader Sees Today's Market

(*Continued from page 621*)

There are other reasons why the banks can sometimes be found selling bonds. For example, as bankers see a rising demand for funds, or perhaps a dwindling supply due to changes in reserve requirements or whatnot, they envisage possibly higher interest rates, higher bond yields, and a corresponding pressure on high grade bonds. Hence there is a profit or protection motive in these sales.

Both of these factors were at work in the summer of 1936. Banks expected larger demands for loans that fall and winter in view of rising inventories. They saw, or thought they saw, firming interest rates. They were faced with new reserve requirements. There began at that time one of the greatest liquidations of bond portfolios in history. Although other forces came subsequently into play the effect of persistent offerings of the best bonds was to weaken prices and confidence all the way down the line. Very little softness in the market for first-grade issues was needed to cause a shading of bids in the group just below them in quality. This shading, when extended to the more speculative bonds, meant substantial drops in short order. We all remember the days in 1937 when well-known listed bonds were quoted: "Offered at 80—no bid!"

Have you ever owned a common stock in a company which was apparently headed for new earnings peaks, with its bonds selling quietly around par, then seen the bonds drop a quick twenty points? If so, the effect on the stock market of this selling wave in bonds is no mystery to you. As fear replaced confidence in the fall of 1937 the dropping prices brought new impetus of their own in the shape of margin calls and so forth, but long before this had happened the bond market had called out a warning that all was not well.

Logically one would expect that the bond market could give equally good assistance in picking the major upturns, yet although some help in the way of confirmation can be derived there has been very little forecasting value in bond prices at the bottom of recent slumps. Banks had ceased their liquidation long before, but last March bonds went to new lows along with stocks and they had fully as difficult a time in working away from them. The chart shows weekly highs in the bond market, therefore misses the absolute low points. Actually no triple bottom appeared in the daily averages, the dips in April and June holding above that at the end of the first quarter. The significance of the bond market in an upturn is apt to be a negative one—its *failure* to rise along with stocks constituting the warning signal.

Currently the banks are adding to investment account, bank funds are ample for much larger demands than any now in sight, inventories are modest, and although the trend of

business is in a favorable direction we are only in the early stages of the up-cycle. Even though there is to be a not unexpected levelling process in which high-grade bonds are weakened by switching to lower grade issues of more attractive yield, as the interest coverage of the latter improves, the level of bonds as a whole will still suggest a healthy stock market—and generally rising stock prices.

The Paraffine Companies, Inc.

(*Continued from page* 610)

As compared with 1929, strongest building recovery has centered in southern California—no doubt reflecting migration of residents from other states. Yet building in northern California and in the intermountain states compares more favorably with 1929 than it does for the country as a whole. Smallest recovery has been in the Pacific northwest. It should be remembered, however, that 1929 was not a boom year for residential building. Thus, the index of permits of the Federal Reserve Bank of San Francisco for December was 53% of the 1923-1925 average but above the average of 1929. Partial and unofficial data indicate further gains in building in that area in January and February.

Although we in the East at times look askance at certain Pacific Coast political tendencies—notably as regards California—it must be said there is no evidence in Paraffine's earning performance to suggest that it has been unduly hampered by the political climate in which it operates.

Paraffine's labor relations, which have been discussed in an article in the February issue of Readers Digest and elsewhere, are a remarkable story in themselves. Suffice it to say here that the company for years maintained an open shop policy, together with above average wages and working conditions, employee insurance plan and vacations with pay ever since 1924—only to wake up early in 1937 and find itself in the grips of three C. I. O. unions and fifteen A. F. of L. craft unions. It mulled over this shock and then proceeded to make hay out of it. It cheerfully recognized the unions, revamped its whole personnel policy and launched a publicity-educational program designed to foster the good will and cooperation of its 1,500 employees. As a result, there have been many instances in which the unions aided in selling efforts, as well as in promoting more efficient plant operations. The Paraffine management frankly states that it is now getting more for its wage dollar than ever before.

The company's reports over the period since June 30, 1937, show that it has been bolstering its financial position substantially. Net working capital as of December 31 was $6,395,589, as compared with $6,374,543 last June 30 and $6,724,927 on June 30, 1937. Modest reduction as compared with 1937 balance sheet was accounted for by paring down inventories. Cash on hand December 31 was $820,641, against $391,562 last June 30 and $372,925 on June 30, 1937. During the last six months of 1938 current liabilities were cut by more than 35%.

Present dividend is $2 a year, at the rate of 50 cents quarterly. Under pressure of the undistributed earnings tax, but justified by profits, total payments of $4 and $2.75 were made in 1937 and 1936 respectively. Capable of wide market movement and a better than average equity in both building materials and paper products, Paraffine around recent prices can be regarded as attractive for longer range speculative-investment.

Profit Prospects for Steels

(*Continued from page* 605)

particularly unfair. Bethlehem Steel, too, is exceedingly wroth because its great plant at Sparrows Point, Md., is on the border of the zone and is forced into direct competition with one of the lowest-rate zones encompassing the big mills at Birmingham, Ala.

The whole minimum wage rate question seems destined for a long trip through the courts before anyone will be able to weigh its full significance. As this is written the Secretary of Labor has been enjoined by the Federal Court from imposing the 62½-cent rate on two naval contracts to be awarded in March.

Excepting for the Walsh-Healey Act influence, steel industry wage rates seem likely to hold steady through the remainder of this year.

The contracts of the Steel Workers Organizing Committee of the Congress for Industrial Organization made last spring were all of the indefinite term variety. They remain in force without further joint agreements unless one side or the other elects to invoke a 20-day escape clause written into nearly all of them. The so-called "Little Steel" group, which did not sign up with C.I.O., also indicate a willingness to "stand pat" on their present wage rates.

Steel's long-term outlook, though not much spoken of at this time, is wrapped up very much in small home building construction.

A conviction abides in the minds of nearly every top executive of the industry that small residential construction eventually will use more steel than the automotive industry.

Homes, they say, are going to be built almost entirely of steel just as surely as fate. Each of the big producer companies have had their laboratories and research engineers working on this idea for three years or more. Several companies have ready now a marketable series of steel house patterns.

Remembering how first the railroads dominated steel consumption and then automobiles and how both chiseled out of the mill companies every last possible price concession, the steel companies are planning to keep the steel house business under control even if they have to make and sell the houses themselves.

London Competes with New York for American Security Business

(*Continued from page* 603)

Can you imagine Conductor Arturo Toscanini and all the members of his symphonic orchestra gathered in the pit of the Metropolitan Opera House without their instruments? And can you imagine these same misplaced instruments reposing upon chairs in the orchestra pit of Carnegie Hall, with not a soul in sight to play them? What is wrong with this picture?

Now, if the texture and intent of Secretary Hopkins' recent speech may be taken as a definite indication of a change in attitude on the part of the present Administration towards business, and that viewpoint embraces not only the public utilities, railroads and labor, but the banking and stock brokerage fields, as well, then one can venture to hope for a moderation on the part of the Securities Exchange Commission in its attitude towards those various Stock Exchange regulations which at the present time virtually cripple the functions of free and open markets.

Of course, it is recognized that a number of laws written into the text of the Act must be administered by the Commission with little latitude for interpretation regardless of how unfair or uneconomic they may be. This, however, is a challenge to Congress at its current session to modify such unfortunate provisions.

The S.E.C. act was without doubt most necessary in its broad purpose and ideals; nevertheless it is manifestly unfair in some of its narrow hindrances which temper the natural enthusiasm of the average honest business man and business organization. Such hindrances create both actual and psychological depressing effects on trade, industry and private investment.

The present Chairman of the Securities Exchange Commission, and his associates have during the last few years absorbed a thorough understanding of technical Wall Street procedure. They now have a better grasp upon the intricate problems of the Street, not only as they affect our domestic and foreign stock markets, but their influence on business and finance.

Within the past four years, there have been three Chairmen of the Securities Exchange Commission—first, Mr. Kennedy; then, Mr. Landis; and now, Mr. Douglas. The first two gentlemen were just getting into the swing of things when they resigned, thereby necessitating the educating of a new man. Recently there has been some newspaper talk of Mr. Douglas resigning, which, if true, would be regrettable indeed.

The S.E.C., by its more experienced approach to the problems of the day, is creating a feeling of hope. Its willingness to accept help and cooperation from the Exchange bodies and the free exchange of ideas is bringing about a better understanding between Washington and Wall Street. Certainly, it would be unfortunate at this time if these S. E. C. officials who have been largely instrumental in clearing the atmosphere and who now have the opportunity for doing a national service job would be obliged to pass the work along to less-informed men.

But lets get back to the question of hot money—the hazard of large foreign funds here. If the political skies in Europe should clear, would there be immediate wholesale repatriation of the huge foreign bank balances in this country? Most decidedly not. One must perforce go behind the facade of capital and explore its personalities. What sort of men are far-sighted and shrewd enough to handle their money in large quantities, shifting it about, here and there, for safety and mobility? Is it the mass mind, or is it the unusual, facile, agile and resourceful mind? Would this type of mind hurry to repatriate immediately, when trained financial experience recognizes the possibilities of substantial profits in American securities in the near future?

We, in America, have been the prize good neighbors of the world. A super-amount of Government interference and misguided legislation has served to prevent our own people from participating in what could be an enormous equity appreciation. Security prices have been under a cloud, because of the prevailing business despondency.

Yet we have permitted frightened and harassed foreign capital, because of the possibilities of war in Europe, to seek a haven of refuge on our shores. This capital eventually should return to its homeland, but only after our stock markets first have, on a silver platter, presented this roving capital with a Christmas gift of millions of dollars in stock market profits. Eventually our own naive public undoubtedly will provide these profits by buying at much higher levels the securities which European capital owners at that time will be ready, willing and anxious to sell. It is like harboring in your own home a fugitive from the police and, having clothed, fed and protected him until the danger was over, you let him, with your full

Forthcoming Dividend Meetings

Company	Time	Date
Alaska Juneau Gold Mining	11:00	Mar. 23
Am. Brake Shoe & Foundry Com. & Pfd.	10:30	Mar. 14
Am. Home Products	11:30	Mar. 23
Am. Ship Building	10:00	Mar. 22
Bon Ami Class A and B*	12:00	Mar. 16
Burroughs Adding Machine*	2:00	Mar. 14
Commonwealth Edison*	—	Mar. 15
Corn Products Refining Com. & Pfd	2:00	Mar. 24
Electric Bond & Share $6 and $5 Pfds*	3:30	Mar. 15
Firestone Tire & Rubber*	9:30	Mar. 17
General Foods $4.50 Pfd*	9:30	Mar. 15
Green (H. L.) Co.*	2:00	Mar. 15
Hecker Products	9:30	Mar. 22
Howe Sound	10:00	Mar. 14
Island Creek Coal Com. & Pfd	2:00	Mar. 14
Keystone Steel & Wire*	1:30	Mar. 14
Knott Corp	—	Mar. 16
Lehigh Portland Cement*	11:00	Mar. 21
Lion Oil Refining*	10:00	Mar. 14
Morris (Philip) 5% Series A Pfd.*	3:30	Mar. 22
National Distillers Products	11:15	Mar. 23
National Power & Light $6 Pfd	3:15	Mar. 16
Procter & Gamble 8% Pfd	1:45	Mar. 14
Public Service of New Jersey 6% Pfd.	3:00	Mar. 21
Telautograph Corp	2:30	Mar. 23
United Fruit	2:00	Mar. 13
Universal Leaf Tobacco Com. & 8% Pfd.*	—	Mar. 13
Westinghouse Air Brake*	3:30	Mar. 17
White Rock Mineral Spring 7% 1st Pfd*	12:00	Mar. 15

*—Approximate date.

All declarations on common stocks unless otherwise noted.

IN THE NEXT ISSUE

What's Behind the Figures?

An Analysis of the Business Balance Sheet

By Edwin A. Barnes

knowledge and consent, take all the cash out of your safe before he says goodbye. It may be the quintessence of hospitality, but is it art?

If the Administration is sincere in its friendly overtures towards private business and private investment, it must hurry to amend, modify and moderate many of those S.E.C. regulations which have caused us to lose our principal security market activity to London and Amsterdam.

Now is the time to do it, while we are harboring these untold millions of foreign capital in this country. Let us get busy and bring back the primary markets to New York before it is too late.

If Congress, in cooperation with the S.E.C., will strike while the iron is hot, while we have the funds but not the facilities, we will wind up by once more having the best facilities, in which event we will keep most of the funds.

Spring Outlook for Business

(*Continued from page* 600)

at 62 and has shown notable stability for many months. At a moderately higher level, a similar stability was shown from the autumn of 1935 until late summer of 1936 when unsound wage-price inflation began to undermine the recovery foundations.

It seems probable that unit labor costs in industry will tend to stabilize around the level reached late last year. If so, labor costs in the manufacturing industries will be some 12% to 15% under the peak reached late in 1937 but 4% to 5% above the level of the first three quarters of 1936. Whatever the limitations this recovery cycle may have—limitations relating in major degree to the deficiency of long term investment of private capital in productive enterprise — there appears little danger at present that it will be wrecked by another unsound inflation of inventories, wage costs and prices.

Although it has no politically feasible alternative, the Administration's belated effort to rebuild business and investment confidence is encouraging as far as it goes. It will take more than words, however, to do the trick. Verbal assurance that the era of Roosevelt reform and experimentation is over is not news because we have known that ever since the election of last November. The pertinent question now does not relate to new reforms and experiments but to revising existing laws and policies in the interest of a privately financed economic recovery.

Between now and the election in 1940 the New Deal hasn't any too much time in which to build a foundation for capitalist recovery. What is required is bold and prompt action—action as bold as that of 1933 but in a general direction precisely opposite to that followed at Washington during most of the past six years.

As I See It!

(*Continued from page* 595)

who have been straining every nerve to retain their position and make progress, can only welcome the opening of the avenues of trade and finance with its opportunity for profits, rebuilding of capital and income.

The government has also expressed itself as being anxious to encourage adventures in new enterprise—because that is what it would be for any businessman today. And there is recognition that in order to take the risk there must be an incentive of adequate gain.

Two laws, the capital gains tax and undistributed profits tax, stand in the way. But we already possess the power to repeal them. As a result of the elections last fall we now have a sufficient majority in Congress to do away with this unwise taxation. I do not see how there can be any serious objection from the government since these measures do not bring in sufficient money to make any real difference to the Treasury. Therefore, it is up to Congress!

But most important of all is the recognition that restrictions on initiative, on daring, are always a mistake—as we have learned to our great loss. It would be disastrous for this country to lose this great vital force, or to discourage it. Men willing to take great risks and unable to satisfy them in our markets have sought adventure elsewhere.

And now the world is on the threshold of great changes. We need men of daring more than ever in this world of insecurity. The speculator — that much maligned pioneer—is the twin brother of the man who came over on the Mayflower, just as he personifies the trail-blazer of the West. It is the speculator who opened up the trackless forest, cleared the land for agriculture, threw the railroads across the country, built up our industries one by one, and made this country great—from all of which we have greatly benefited in spite of his mistakes.

We must gird our loins for battle; but it is a battle for trade—for the retention of our domestic markets—the kind of warfare with which we are keenly familiar. With a conciliatory government and labor, how sweet this breath of adventure will be in our nostrils!

Happening in Washington

(*Continued from page* 607)

Munitions profits limitations probably will be liberalized by Congress so that suppliers of aircraft and other defense material will not be bound to rigid 10%. Proposals include: permitting inclusion of planning and development expense; spreading present limitation to average of all contracts instead of each order separately; applying limitation only where bids exceed a suggested price set by purchasing officers.

Trade agreements program is being subjected to increased sniping in Congress and pressure for changes is expected to be strong after announcement, probably soon, of agreements with Turkey and Venezuela and particularly supplemental agreement with Cuba which sugar interests claim was improperly negotiated. Administration officials feel that some curtailment of their bargaining power is inevitable and the best they can hope for is to have the subject postponed until next year when the act expires and will be up for renewal.

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